

TUOLUMNE COUNTY ASSESSMENT PRACTICES SURVEY

MAY 2004

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May 28, 2004

TO COUNTY ASSESSORS:

TUOLUMNE COUNTY
ASSESSMENT PRACTICES SURVEY

No. 2004/033

A copy of the Tuolumne County Assessment Practices Survey Report is enclosed for your information. The Board of Equalization (BOE) completed this survey in fulfillment of the provisions of sections 15640-15646 of the Government Code. These code sections provide that the BOE shall make surveys in each county and city and county to determine that the practices and procedures used by the county assessor in the valuation of properties are in conformity with all provisions of law.

The Honorable David W. Wynne, Tuolumne County Assessor-Recorder, was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained therein. The report, including the assessor's response, constitutes the final survey report which is distributed to the Governor, the Attorney General, and the State Legislature; and to the Tuolumne County Board of Supervisors, Grand Jury, and Assessment Appeals Board.

The BOE's County Property Tax Division performed fieldwork for this survey from March through August 2003. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Mr. Wynne and his staff gave their complete cooperation during the survey. We gratefully acknowledge their patience and courtesy during the interruption of their normal work routine.

These survey reports give government officials in California charged with property tax administration the opportunity to exchange ideas for the mutual benefit of all participants and stakeholders. We encourage you to share with us your questions, comments, and suggestions for improvement.

Sincerely,

/s/ David J. Gau

David J. Gau
Deputy Director
Property and Special Taxes Department

DJG:jm
Enclosure

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INTRODUCTION

Although county government has the primary responsibility for local property tax assessment, the State has both a public policy interest and a financial interest in promoting fair and equitable assessments throughout California. The public policy interest arises from the impact of property taxes on taxpayers and the inherently subjective nature of the assessment process. The financial interest comes from the fact that more than one-half of all property tax revenue is used to fund public schools and the State is required to backfill any shortfalls from that property tax funding.

The assessment practices survey program is one of the State's major efforts to address these interests and to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (BOE) periodically reviews the practices and procedures of (surveys) every county assessor's office. This report reflects the BOE's findings in its current survey of the Tuolumne County Assessor-Recorder's Office.¹

Readers of previous assessment practices survey reports will note several distinct changes in the format of the report. Among other things, the previous reports commonly contained multi-part recommendations and formal suggestions. Each recommended change is now listed as a separate recommendation. Items that would have been formal suggestions under the previous format are now either recommendations or are stated informally within the text of the report. Both of these changes increase the number of recommendations in the survey reports.

The assessor is required to file with the board of supervisors a response that states the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the BOE, the Senate and Assembly, and the Tuolumne County Grand Jury and Assessment Appeals Board. That response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The Honorable David W. Wynne, Tuolumne County Assessor-Recorder, elected to file his initial response prior to the publication of our survey; it is included in this report following the Appendices.

While typical management audit reports emphasize problem areas, they say little about operations that are performed correctly. Assessment practices survey reports also tend to emphasize problem areas, but they also contain information required by law (see *Scope of Assessment Practices Surveys*) and information that may be useful to other assessors. The latter information is provided in the hope that the report will promote uniform, effective, and efficient assessment practices throughout California.

¹ This report covers only the assessment functions of this office.

SCOPE OF ASSESSMENT PRACTICES SURVEYS

Government Code sections 15640 and 15642 define the scope of an assessment practices survey. As directed by those statutes, our survey addresses the adequacy of the procedures and practices employed by the assessor in the valuation of property, the volume of assessing work as measured by property type, and the performance of other duties enjoined upon the assessor.

In addition, pursuant to Revenue and Taxation Code² section 75.60, the BOE determines through the survey program whether the county assessment roll meets a minimum assessment level for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. This certification may be accomplished either by conducting an assessment sample or by determining, through objective standards—defined by regulation—that there are no significant assessment problems. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix C.

Our survey of the Tuolumne County Assessor-Recorder's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contact with other public agencies in Tuolumne County that provided information relevant to the property tax assessment program. This survey also included an assessment sample of the 2002-03 assessment roll to determine the average level (ratio) of assessment for all properties and the disparity among assessments within the sample. The ideal assessment ratio is 100 percent, and the minimum acceptable ratio is 95 percent. Disparity among assessments is measured by the sum of absolute differences found in the sample; the ideal sum of absolute differences is 0 percent and the maximum acceptable number is 7.5 percent. If the assessment roll meets the minimum standards for ratio and disparity, the county is eligible to continue to recover the administrative cost of processing supplemental assessments. The sampling program is described in detail in Appendix B.

This survey report offers recommendations to help the assessor resolve the problems we have identified. The recommendations contained in this report are based on the results of our research into statutory violations, under- or overassessments, or unacceptable appraisal practices that may occur in specific areas.

An assessment practices survey is not an audit of the assessor's entire operation. We do not examine internal fiscal controls or the internal management of an assessor's office outside those areas related to assessment.

² Unless otherwise stated, all statutory references are to the California Revenue and Taxation Code.

EXECUTIVE SUMMARY

As stated in the Introduction, this report emphasizes problem areas in the operations of the assessor's office. However, it also identifies program elements that we found particularly effective. The report also describes areas of improvement since our last assessment practices survey.

In our 1999 Tuolumne County Assessment Practices Survey, we made 11 recommendations to address problems in the assessor's assessment policies and procedures. The assessor fully implemented three of the recommended changes, partially implemented three, and did not implement five. Of these five, four are repeated in this report.

We noted several strengths in the assessor's programs. He is careful and current in his use of BOE-prescribed assessment forms. His assessments of leased equipment, properties that have undergone declines-in-value, and taxable government-owned properties, fully conform to statutory requirements. He and his staff possess the appraisers' certificates required by section 670. He has participated in the State-County Property Tax Administration Program every year since 1998, and the county auditor-controller has certified to the State Department of Finance that the county has met the contractual requirements for loan payments.

Since our last survey, the assessor has stayed current with the reassessment of properties that have transferred or undergone new construction despite a workload increase of more than 45 percent; assisted in the implementation of a countywide Geographic Information System; is currently developing an interactive county Web site scheduled to be up and running in 2004; and has implemented a document imaging and recording system.

We also noted several areas for improvement in the assessor's programs. We have grouped our recommendations for improvement into three categories: administration, real property, and personal property and fixtures. In the area of administration, the assessor should:

- Ensure that only the eligible percentage of taxable value of low-income rental housing owned by a qualifying nonprofit corporation receives the welfare exemption;
- Enroll low-value properties to ensure eligibility for exemption under the county resolution;
- Ask the board of supervisors to update the county disaster relief ordinance to conform with recent amendments to section 170; and
- Include the notation on the current roll required by section 533 when enrolling escape assessments.

In the area of real property, the assessor should:

- Apply the penalty for failure to file a change in ownership statement;

- Document discounts on reported costs of residential swimming pools;
- Enroll supplemental assessments for structural leasehold improvements and possessory interests assessed on the unsecured roll;
- Use market-supported rents, expenses, appropriate risk rates, and deduct a capital replacement allowance for irrigation wells when valuing California Land Conservation Act (CLCA) properties;
- Send questionnaires requesting compatible-use information to owners of Timberland Production Zone (TPZ) land and ensure that the compatible-use values are indexed appropriately;
- Include the notation on the assessment roll for TPZ property, as required by section 433;
- Not combine into a single assessment the value of a houseboat and the value of the associated possessory interest;
- Not revalue taxable possessory interests for aircraft hangars solely because the rents have changed;
- Use current expense information when valuing historical restricted properties;
- Properly classify leasehold improvements;
- Request copies of the annual financial statement required by the California Public Utilities Commission (CPUC) for water companies regulated by the CPUC;
- Require CPUC water companies to file an annual property statement; and
- Adjust the base year value of mineral rights to account for depletion or addition of the mineral reserves.

In the area of personal property and fixtures, the assessor should:

- Complete mandatory audits in timely manner;
- Audit exempt organizations that meet the requirements of section 469;
- Request from taxpayers waivers of the statute of limitations when an audit will not be completed in a timely manner;
- Not accept business property statements that are incomplete or have been signed by someone other than an authorized person;
- Use minimum percent good factors in Assessors' Handbook Section 581 as intended;
- Require evidence that aircraft receiving the historical aircraft exemption have met the public display requirements; and

- Send Form BOE-576-D, *Vessel Property Statement*, to the owners of vessels costing over \$100,000.

The Tuolumne County assessment roll meets the requirements for assessment quality established by section 75.60. Our sample of the 2002-03 assessment roll indicated an average assessment ratio of 99.04 percent, and the sum of the absolute differences from the required assessment level was 1.61 percent. Accordingly, the BOE certifies that Tuolumne County is eligible to continue receiving reimbursement of costs associated with administering supplemental assessments.

Following is a list of the formal recommendations contained in this report, arrayed in the order that they appear in the text.

RECOMMENDATION 1:	Grant welfare exemptions claims only for qualifying portions of low-income rental housing.	15
RECOMMENDATION 2:	Enroll low-value property to ensure eligibility for exemption under the county resolution.	16
RECOMMENDATION 3:	Request that the board of supervisors revise the disaster relief ordinance to reflect recent amendments to section 170.	17
RECOMMENDATION 4:	Revise the disaster relief claim form to comply with section 170.	17
RECOMMENDATION 5:	Include on the assessment roll the escape assessment notation required by section 533.	19
RECOMMENDATION 6:	Apply the penalty required by section 482 when a <i>Change of Ownership Statement</i> is incomplete, not returned timely, or not returned at all.	23
RECOMMENDATION 7:	Substantiate new construction discounts on residential swimming pools.	27
RECOMMENDATION 8:	Make supplemental assessments for structural leasehold improvements and possessory interests assessed on the unsecured roll.	28
RECOMMENDATION 9:	Deduct a capital replacement allowance for irrigation wells that contribute to the income being capitalized.	30
RECOMMENDATION 10:	Develop appropriate risk components for CLCA properties.	30
RECOMMENDATION 11:	Obtain current agricultural rents and production information from owners of CLCA land.	31

RECOMMENDATION 12:	Send questionnaires to taxpayers requesting compatible use information on TPZ parcels.....	34
RECOMMENDATION 13:	Identify TPZ parcels on the assessment roll as required by section 433.	34
RECOMMENDATION 14:	Separately assess the possessory interest portion of houseboat assessments.	35
RECOMMENDATION 15:	Reappraise taxable possessory interests in accordance with section 61(b)(2).	36
RECOMMENDATION 16:	Value historical property using current owner expense data.	37
RECOMMENDATION 17:	Document classification of fixtures and structural leasehold improvements, as warranted.	39
RECOMMENDATION 18:	Obtain a copy of the annual CPUC report for each water company.	40
RECOMMENDATION 19:	Require CPUC water companies to file an annual property statement to ensure proper classification and assessment of personal property.	41
RECOMMENDATION 20:	Assess mineral properties according to the requirements of rule 469.	41
RECOMMENDATION 21:	Audit the books and records of professions, trades, or businesses pursuant to section 469.....	42
RECOMMENDATION 22:	Audit mandatory accounts of exempt organizations.....	43
RECOMMENDATION 23:	Obtain a signed waiver of the statute of limitations when an audit will not be completed in a timely manner.	43
RECOMMENDATION 24:	Accept only completed business property statements.	45
RECOMMENDATION 25:	Accept only business property statements with authorized signatures, as provided in rule 172.	45
RECOMMENDATION 26:	Audit or visit taxpayers who fail to file business property statements for three or more consecutive years.....	46
RECOMMENDATION 27:	Use the percent good factors in the AH 581 as intended.	46

RECOMMENDATION 28:	Require evidence that aircraft receiving the historical aircraft exemption have been properly displayed according to section 220.5.	49
RECOMMENDATION 29:	Require vessel owners to file annual vessel property statements for boats costing \$100,000 or more.....	50

RESULTS OF THE 1999 SURVEY

Assessment Appeals

We recommended the assessor audit taxpayers whose business properties are under assessment appeal. The assessor now audits these taxpayers prior to their assessment appeal hearings. The assessor has fully implemented this recommendation.

Change in Ownership

We recommended the assessor apply the penalty required by section 482 for failure to timely file a *Change of Ownership Statement* (COS). We found the assessor still does not impose penalties when COS forms are not returned within the statutory 45 day deadline. The assessor has not implemented our recommendation.

Supplemental Assessments

We recommended the assessor request the board of supervisors change its current low value *resolution* to an *ordinance*. We found no change in the assessor's practice. However, we no longer consider this a significant issue.

Possessory Interests

We made one multi-part recommendation for improvement of the possessory interest program: (1) assess all possessory interests (PI's) at the county fairgrounds, (2) separately assess PI's of houseboat owners, (3) conform PI base year value determinations to section 61(b)(2), and (4) use BOE-prescribed Form BOE-502-P to request information from government agencies.

The assessor has implemented two parts of this recommendation. He has enrolled all assessable fairground PI's. In addition, while he still does not utilize Form BOE-502-P, the form letters he uses produce sufficient information for assessment purposes. However, the assessor still does not separately assess PI's of houseboat owners or conform PI base year values to section 61(b)(2).

Timberland Production Zone Property

We recommended the assessor improve Timberland Production Zone (TPZ) assessment procedures by using periodic questionnaires to canvass TPZ parcels for compatible, nonexclusive uses of TPZ land. The assessor has not implemented this recommendation.

Mineral Properties

We recommended the assessor adjust the base year value of the mineral rights to account for depletion or addition of mineral reserves. The assessor has not implemented this recommendation.

Audit Program

We recommended that the assessor bring his mandatory audit program current. While the assessor has made significant progress, he is still behind in his mandatory audit program. We also recommended the assessor seek waivers of the statute of limitations in all situations where mandatory audits will not be completed on time. The assessor still does not routinely seek such waivers.

Business Property Statement Processing

We recommended that the assessor not accept property statements that fail to comply with statutory requirements. We found that the assessor no longer accepts equipment lists not attached to completed business property statements. The assessor has implemented our recommendation.

Vessels

We recommended the assessor improve vessel appraisal procedures by applying late filing penalties only when using BOE-prescribed forms. We found that, since the 1999 lien date, the assessor has used Form BOE 576-D, *Vessel Property Statement*, thereby implementing our recommendation.

We also recommended the assessor require vessel owners whose initial assessment was \$100,000 or more to annually file a vessel property statement. The assessor has not implemented this recommendation.

Aircraft

We recommended the assessor improve aircraft procedures by conducting periodic field inspections and requiring proof of the number of public display days before granting the historical aircraft exemption. The assessor has implemented the first part of our recommendation, but still does not require aircraft owners to provide proof of the public display days reported on the historical aircraft exemption claim form.

Manufactured Homes

We recommended the assessor properly classify manufactured homes as personal property. The assessor has implemented our recommendation.

OVERVIEW OF TUOLUMNE COUNTY AND THE ASSESSOR'S OFFICE

Tuolumne County is a general law county, established by the California Legislature in 1850 as one of the original 27 counties. The county lies on the western slope of the Sierra Nevada, bordered on the north by Calaveras and Alpine counties, on the east by Mono County, on the south by Mariposa County, and on the west by Stanislaus County.

The county encompasses 2,229 square miles, or 1,426,560 acres, and has one incorporated city, Sonora. Historically, mining and timber industries dominated Tuolumne County's economy. In recent years, as these industries have declined and the local economy has diversified, tourism has become an increasingly important industry. Other industry groups include machinery, printing, manufacturing, candy, home-based businesses, and high-tech firms.

Tuolumne County is also the source of significant amounts of electrical energy, as it is the site of four hydroelectric power plants.

Sonora is the county seat. Governed by a five-member board of supervisors, Tuolumne County has a population of more than 55,000 people, about 10 percent of whom reside in the city of Sonora.

Staffing

The Assessor-Recorder's office has 18.5 budgeted full-time positions. The staff currently includes the assessor, assistant assessor, assistant recorder, assessment office manager, cadastral GIS technician II, auditor-appraiser II, four senior appraisers, three assessment technicians, two senior assessment technicians, two recordable document examiners, one assistant records clerk (half-time), and one senior recordable document examiner. In addition, the assessor uses one contract auditor-appraiser to conduct mandatory and nonmandatory audits.

Budget

As shown in the table below, on average, the assessor's budget increased about 5 percent per year between 1998-99 and 2002-03. On a budget of \$991,169, the assessor prepared the 2003-04 local roll.

FISCAL YEAR	GROSS BUDGET	PERCENT CHANGE	PERMANENT STAFF	PTAP FUNDS RECEIVED
2002-03	\$991,169	3.2%	18.5	\$126,067
2001-02	\$960,524	8.9%	18.5	\$126,067
2000-01	\$882,123	3.1%	18.5	\$126,067
1999-00	\$855,612	3.9%	18.5	\$126,067
1998-99	\$823,336		18.5	\$126,067

Assessment Volume

Commensurate with county growth, total local roll values have steadily increased since the 1998-99 roll year. The total increase between 1998-99 and 2002-03 was approximately 21 percent, reflecting an average annual increase of about 5 percent. The following table lists the assessments for each year.

ROLL YEAR	SECURED LOCAL ROLL	SECURED PARCELS	UNSECURED LOCAL ROLL	UNSECURED PARCELS	TOTAL LOCAL ROLL
2002-03	\$3,823,126,410	37,427	\$135,667,744	3,848	\$3,958,794,154
2001-02	\$3,587,440,135	37,447	\$130,756,593	3,703	\$3,718,196,728
2000-01	\$3,400,346,383	37,450	\$121,641,410	3,581	\$3,521,987,793
1999-00	\$3,255,710,666	37,448	\$117,815,575	3,519	\$3,373,526,241
1998-99	\$3,143,267,063	37,550	\$115,441,768	3,558	\$3,258,708,831

ADMINISTRATION

This portion of the survey report focuses on administrative policies and procedures of the assessor's office that affect both the real property and business property assessment programs. We examined the State-County Property Tax Administration Program, appraiser certification, exemptions, low-value property exemptions, the disaster relief program, and assessment forms. We also reviewed how the assessor handles corrections and changes to the completed assessment roll, and how the assessor prepares for and presents assessment appeals.

State-County Property Tax Administration Program

In 1995, the Legislature established the State-County Property Tax Administration Program (PTAP). This program, expired June 30, 2001 and was replaced with the Property Tax Administration Grant Program, which is available to counties for fiscal years 2002-03 through 2006-07. The grant program operates in essentially the same manner as the loan program except that if a county fails to meet its contractual performance criteria, the county will not be obligated to repay the grant but will be ineligible to continue to receive a grant.

If an eligible county elected to participate, the county and the State Department of Finance (DOF) entered into a written contract (as described in section 95.31). A PTAP loan is considered repaid if the county satisfies agreed-on performance criteria set forth in the contract. The contract provides that the county agrees to maintain a base funding and staffing level in the assessor's office equal to the funding and staffing level for the 1994-95 fiscal year. This requirement prevents a county from using PTAP funds to supplant the assessor's existing funding.

In most cases, verification of county performance is provided to the DOF by the participating county's auditor-controller.

Tuolumne County entered into a contract with the DOF on August 27, 1998, to participate in the PTAP for 1998-99, 1999-00, and 2000-01. For contract year 2002-03, the assessor borrowed \$126,067. The county's required base funding and staffing level for the assessor's office are \$754,720 and 16.6 positions, respectively. The Tuolumne County Auditor-Controller has certified to the DOF that the county met the contractual requirements for loan repayment for every year under contract.

The assessor used PTAP funds for the following performance measures throughout the years of his contract (not all measures applied in each year):

- Provide new computers for all staff and augment hardware and software purchases for the Tax Collector and Auditor-Controller;
- Perform annual review of properties to determine if decline-in-value adjustments are warranted;
- Perform nonmandatory audits;

- Extend homeowners' exemptions to all qualifying homeowners;
- Improve discovery of non-permitted new construction;
- Improve the size and accuracy of the assessment database by entering property characteristics for all parcels; and
- Enter base year values for all CLCA properties.

The assessor used a combination of full-time employees and added a Geographic Information System (GIS) technician and a senior appraiser to achieve the contracted performance measures. For every year he has participated in the loan program, the assessor has exceeded the performance measures established in his contract.

Appraiser Certification

Section 670 provides that no person shall perform the duties of an appraiser for property tax purposes unless he or she holds a valid certificate issued by the BOE. There are six certified appraisers and one certified auditor-appraiser in the assessor's office. Based on the information obtained from the BOE's Training Unit and the assessor's records, we confirmed that the assessor and his staff possess the required certificates. In addition, the assessor uses one contract auditor-appraiser to conduct mandatory and nonmandatory audits in Tuolumne County. The contract auditor-appraiser has also met the BOE training requirements.

Exemptions

Church and Religious Exemptions

The church exemption is authorized by article XIII, section 3(f) of the California Constitution.

This provision, implemented by section 206, exempts from property taxation buildings, land on which they are situated, and equipment used exclusively for religious worship, whether such property is owned by the church or leased to it. Property that is reasonably and necessarily required for church parking can be exempt under article XIII, section 4(d), provided that the property is not used for commercial purposes. The church parking exemption set forth in section 206.1 is available for church-owned property as well as leased property meeting the requirements of the section.

Article XIII, section 4(b) authorizes the Legislature to exempt property used exclusively for religious, hospital, or charitable purposes and owned or held in trust by corporations or other entities that meet the following requirements: (1) are organized and operating for these purposes; (2) are non-profit; and (3) no part of whose net earnings inures to the benefit of any private shareholder or individual. The Legislature has acted upon such authorization by enacting the religious exemption in section 207, which exempts property owned by a church and used exclusively for religious worship and school purposes.

The assessor processed one church exemption claim and 64 religious exemption claims for the 2002-03 assessment roll. The following table illustrates religious and church exemption data for the 1998-99 through 2002-03 assessment rolls:

	RELIGIOUS		CHURCH	
ROLL YEAR	Amount of Exemptions	Number of Exemptions	Amount of Exemptions	Number of Exemptions
2002-03	\$17,560,871	64	\$3,467,116	1 ³
2001-02	\$16,448,670	65	\$3,399,139	8
2000-01	\$15,322,625	67	\$3,294,748	8
1999-00	\$13,676,291	67	\$3,230,148	8
1998-99	\$12,901,930	64	\$3,009,387	7

The assessor administers the church and religious exemptions. The religious exemption requires a one-time filing by the claimant. Once granted, the exemption remains in effect until terminated or until the property is no longer eligible for the exemption. However, the church exemption and the church parking exemption require annual filings.

In Tuolumne County, first-time claimants for the religious exemption correctly file Form BOE-267-S, *Religious Exemption Claim*. Once established, the assessor annually mails Form BOE-267-SNT, *Religious Exemption Change in Eligibility or Termination Notice*. We found the assessor's religious and church exemption programs to be properly administered.

Welfare Exemption

The welfare exemption from local property taxation is available for property owned and used exclusively for qualifying religious, hospital, scientific, or charitable purposes by qualifying organizations formed and operated exclusively for those purposes. Both the organizational and property use requirements must be met for the exemption to be granted.

The welfare exemption is co-administered by the BOE and county assessors. Effective January 1, 2004, the BOE became responsible for determining whether an organization itself is eligible for the welfare exemption and for issuing Organizational Clearance Certificates to qualified nonprofit organizations. And, the assessor became responsible for determining whether the use of a qualifying organization's property is eligible for exemption and for approving or denying exemption claims.

The assessor may not grant a welfare exemption for an organization's property unless the claimant holds a valid Organizational Clearance Certificate issued by the BOE. The assessor may, however, deny an

³ The difference in the number of church exemption claims filed is due to a difference in the county's reporting procedures, not in the number of church exemption claims filed.

exemption claim, based on non-qualifying use of the property, notwithstanding the claimant's Organizational Clearance Certificate issued by the BOE.

The following table shows welfare exemption data taken from the 1998-99 through 2002-03 assessment rolls:

WELFARE		
Roll Year	Number	Value
2002-03	66	\$41,364,611
2001-02	108	\$62,804,067
2000-01	104	\$56,652,273
1999-00	106	\$53,564,095
1998-99	100	\$37,191,043

Our review indicated the assessor's portion of the welfare exemption process is well administered with one exception.

RECOMMENDATION 1: Grant welfare exemption claims only for qualifying portions of low-income rental housing.

The assessor has exempted portions of low-income rental housing projects occupied by persons who do not meet the income test required for exemption.

Section 214(g) states that properties owned by nonprofit organizations providing housing for lower-income households can qualify for the welfare exemption to the extent that the incomes of the households' members residing therein do not exceed certain amounts. The percentage of value eligible for exemption is established by determining the ratio of the area of low-income households to the total area of the property.

The assessor has inappropriately exempted taxable real property. We recommend the assessor limit the welfare exemption to qualifying portions of low-income rental housing.

Low-Value Property Exemption

Section 155.20 authorizes the county board of supervisors to exempt from property taxation all real property with a base year value, and personal property with a full value, so low that, if not exempt, the total taxes, special assessments, and applicable subventions on the property would amount to less than the assessment and collection costs. Section 155.20(b)(1) provides that the county board of supervisors has no authority to exempt property with a total base year value or full value of more than \$5,000, or more than \$50,000 in the case of certain possessory interests. The board of supervisors must adopt any such exemption on or before the lien date for the fiscal year to which the exemption is to apply. At the option of the board of supervisors, the exemption may continue in effect for succeeding fiscal years.

RECOMMENDATION 2: Enroll low-value property to ensure eligibility for exemption under the county resolution.

We found numerous business property statements and business questionnaires that indicated properties valued below \$2,000 were never properly placed on the local tax roll.

On March 2, 1993, the Tuolumne County Board of Supervisors passed Resolution 28-93 which adopted the provisions of section 155.20. The resolution provides that all unsecured property with a full value of \$2,000 or less shall be exempt from property taxation. The resolution also exempts manufactured home accessories up to \$5,000 that are installed or added to manufactured homes that were purchased prior to July 1, 1980 and are subject to vehicle license fees for fiscal year 1993-94 and/or each fiscal year thereafter, until the resolution is rescinded.

Current office procedures result in unequal treatment of low-value properties and improper application of the low-value resolution. The assessor should properly enroll these small assessments and then apply the exemption as intended in the resolution.

Disaster Relief

Section 170 permits a county board of supervisors to adopt an ordinance that allows immediate property tax relief on qualifying property damaged or destroyed by misfortune or calamity. The property tax relief is available to the owner of any taxable property whose property suffers damage exceeding \$10,000 (without fault) in a misfortune or calamity. In addition, section 170 provides procedures for calculating value reductions and restorations of value for the affected property.

To obtain relief under an ordinance, assessee must make a written application to the assessor requesting reassessment. However, if the assessor is aware of any property that has suffered damage by misfortune or calamity, the assessor must either provide the last known assessee with an application for reassessment, or he may revalue the property on lien date.

Upon receipt of a properly completed application, the assessor shall reassess the property for tax relief purposes. If the sum of the full cash values of the land, improvements, and personal property before the damage or destruction exceeds the sum of the values after the damage or destruction by \$10,000 or more, the assessor shall then determine the percentage of value reductions and reduce the assessed values accordingly.

The assessor's office processes between 10 and 20 applications for disaster relief each year. The assessor currently receives fire reports from the California Department of Forestry (CDF). However, the assessor does not receive reports from county fire departments or the city fire department. We reviewed the assessor's alternative methods of discovering properties damaged or destroyed by misfortune or calamity. These include a weekly review of the countywide newspaper by an assessment clerk, field observations by staff appraisers, reviews of building permits for demolition or repair of properties, and inquiries from taxpayers. Our review indicates that the assessor has an adequate disaster relief discovery program.

RECOMMENDATION 3: Request that the board of supervisors revise the disaster relief ordinance to reflect recent amendments to section 170.

The Tuolumne County Board of Supervisors passed ordinances 3.36.010 and 3.36.020, granting the assessor the authority to provide tax relief on properties damaged by misfortune or calamity. Ordinance 3.36.010 covers the application for reassessment. Ordinance 3.36.020 deals with processing the application. However, the ordinances do not reflect recent amendments to section 170 (which include raising the damage threshold from \$5,000 to \$10,000). All of the notices and applications sent to the taxpayers reflect section 170 as it read prior to the recent amendments.

We recommend that the assessor request the board of supervisors update the ordinances to reflect the changed requirements of section 170.

RECOMMENDATION 4: Revise the disaster relief claim form to comply with section 170.

The assessor's disaster relief claim form is inadequate. The form refers to property damage "in excess of \$5,000." This is contrary to section 170(b), which establishes a damage threshold of \$10,000 or more. Additionally, the form does not but should include a statement that a claim can be made for damage to either real or personal property.

The assessor's claim form is not in conformity with section 170 and transmits incorrect information to taxpayers. We recommend that the assessor revise the disaster relief claim form to conform to section 170.

Assessment Forms

Subdivision (d) of Government Code section 15606 requires the BOE to prescribe and enforce the use of all forms for the assessment of property for taxation. The BOE currently prescribes 76 forms for use by county assessors and one form for use by county assessment appeals boards. Generally, the assessor has the option to change the appearance (e.g., size and color) of a prescribed form but cannot add to, change, or delete the specific language on the form. The assessor may also rearrange a form, provided the assessor obtains prior approval from the BOE.

Assessors may also use locally developed forms and questionnaires to assist them in their assessment duties. However, such forms may not be used as substitutes for BOE-prescribed forms, and no penalty may be imposed upon a property owner for failure to file such a form or questionnaire.

The BOE annually sends checklists to assessors for property statements, exemption forms, and miscellaneous forms. Assessors are to indicate on the checklists which forms they will use in the succeeding assessment year, and return the property statements and miscellaneous forms checklists by October 15, and the exemption forms checklist by December 1. By February 10, assessors are required to submit to the BOE the final prints of all forms they will use as provided in rule 171.

The form checklists for the 2003 lien date were returned by the assessor to the BOE within the specified period. The assessor uses 46 of the 76 BOE-prescribed forms, none of which were

rearranged. With the exception of the use of one out-of-date form, BOE-267-L, *Welfare Exemption Supplemental Affidavit-Lower-Income Household Income Statement*, the assessor has a satisfactory assessment forms program.

Assessment Roll Changes

The assessor has a duty to complete the local assessment roll and deliver it to the auditor by July 1 of each year. After delivery of the roll to the auditor, the assessment roll may not be changed except as authorized by statute. All assessment roll changes are based on specific statutes, and any roll change must be accompanied by the appropriate statutory reference.

Assessment roll changes fall under two general categories: escape assessments and corrections. An escape assessment is an assessment of property that was not assessed or was underassessed on the original roll, for any reason. A correction is any type of authorized change to an existing assessment except for an underassessment caused by an error or omission of the assessee.

The following table shows the number of roll changes processed over a five-year period:

ROLL YEAR	TOTAL	SECURED	UNSECURED
2002-03	466	285	181
2001-02	440	233	207
2000-01	493	341	152
1999-00	467	305	162
1998-99	471	327	144

We reviewed the assessor's procedures and a number of instances where he made roll changes. Roll corrections are made within the authorized period of time and *Notices of Proposed Escape Assessment* are mailed to taxpayers, as required, at least 10 days before the changes are entered on the roll.

Recent legislation added the requirement to Revenue and Taxation Code sections 75.31 and 534 that notification to the assessee under these sections "shall be on a form approved by the State Board of Equalization." Pursuant to this requirement, the BOE has prescribed forms BOE-66-A and BOE-66-B, *Notice of Enrollment of Escape Assessment*, and forms BOE-67-A and BOE-67-B, *Notice of Supplemental Assessment*. The "A" version of both forms is for counties whose boards of supervisors have not adopted the provisions of section 1605(c), which authorize a county's board of supervisors to require that a formal appeal be filed within 60 days of the date of the mailing printed on the tax bill or the postmark date on the envelope in which the tax bill is mailed, whichever is later. The "B" version of both forms is for counties whose boards of supervisors have adopted the provisions of section 1605(c). Since the Tuolumne County Board of Supervisors has not adopted a resolution pursuant to section 1605(c), an application for changed assessment must be filed within 60 days of the date of the mailing

printed on the tax bill or the postmark date on the envelope in which the tax bill was mailed, whichever is later.

We believe that the assessor has complied with the aforementioned requirements. However, we found one area where the assessor's procedures for roll corrections do not meet statutory requirements: the roll notation for an escape assessment on the current assessment roll.

RECOMMENDATION 5: Include on the assessment roll the escape assessment notation required by section 533.

We found that the assessment roll lacks the notation for escape assessments required by section 533. When an assessment roll change (ARC) is made, the assessor's staff posts it next to the previous roll value in red pencil and draws a red line through the previous value. A reference is also made to the ARC number. If an ARC is made for a prior year, then the roll book for that year is pulled and the new values for that year are likewise entered onto the roll for that year. If the roll changes are the result of an audit liability, the process is repeated for each year a liability occurs.

Section 533 requires the assessor to enter a specific notation on the assessment roll when enrolling escape assessments. Section 533 provides, in relevant part, "[I]f this is not the roll for the assessment year in which the property escaped assessment, the entry shall be followed with 'Escaped assessment for year ____ pursuant to Sections ____ of the Revenue and Taxation Code.'" All of the escapes should be posted to the current year's roll and the escapes for prior years should be noted on the current roll with the proper notation. This method is explained in greater detail in Assessors' Handbook Section 201, *Assessment Roll Procedures*.

We recommend the assessor include the notation as required by section 533 following the entry of an escape assessment.

Assessment Appeals

The assessment appeals function is prescribed by article XIII, section 16 of the California Constitution. Sections 1601 through 1641.2 are the statutory provisions governing the conduct and procedures of assessment appeal boards and the manner of their creation. As authorized by Government Code section 15606, the BOE has adopted rules 301 through 326 to regulate the functioning of the assessment appeal process.

A review of the assessment appeals function involves both the activities of the assessor's office and the activities of the county board of equalization or county assessment appeals board as they relate to assessment appeals. The two entities must have a working relationship in order to make the entire appeals process effective and efficient, particularly for scheduling and document processing purposes. However, at the same time, they must maintain the statutory separation of authority and responsibility of both agencies.

In Tuolumne County, the five-member board of supervisors serves as the county board of equalization and hears all assessment appeals. Assessment appeal hearings are held four to five times a year.

Although the assistant assessor coordinates appeals, the property appraiser who valued the appealed property represents the assessor at the hearings. The Clerk of the Assessment Appeals Board handles all clerical requirements. The following data represents the number of appeals filed with the assessment appeals clerk and the appeal findings over the last four years:

Fiscal Year	No. Filed	Open	Withdrawn	Stipulated	Denied
2002-03	15	10	5	0	0
2001-02	29	0	22	7	0
2000-01	19	0	12	3	4
1999-00	14	0	11	1	2

As is evidenced by the high percentage of withdrawn applications and stipulations, the assessor is diligent in his efforts to reconcile differences in opinions of value.

Over the last four years, about 37 percent of the appeals involved commercial or industrial properties. The remaining 63 percent consisted mostly of residential properties. Over the same four-year period, the average total disputed value was approximately \$17 million.

Since our last survey, the assessor has implemented our recommendation to conduct an audit before major reductions in taxable value are recommended during an assessment appeal.

We found that the assessor and the county board of equalization work closely to ensure that all appeals are tracked and heard within the required two-year time frame. The assessor effectively administers his assessment appeal program.

ASSESSMENT OF REAL PROPERTY

The assessor's program for assessing real property includes the following elements:

- Revaluation of properties that have changed ownership.
- Valuation of new construction.
- Annual review of properties that have experienced declines in value.
- Annual revaluations of certain properties subject to special assessment procedures, such as land subject to California Land Conservation Act (CLCA) contracts and taxable government-owned land.

Under article XIII A of the California Constitution, the taxable value of most real property may not exceed its full cash value as of the later of (1) the 1975 lien date or (2) the property's most recent change in ownership or completion of new construction. This ceiling on taxable value establishes the property's "base year value," which is subject to an annual inflation adjustment not to exceed 2 percent.

Change in Ownership

Section 50 requires the assessor to establish a base year value for real property upon a change in ownership. Section 60 defines change in ownership as a transfer of a present interest in real property, including the beneficial use thereof, the value of which is substantially equal to the value of the fee simple interest. Sections 61 through 69.5 further clarify what is considered a change in ownership and what is excluded from change in ownership for reappraisal purposes.

Discovery and Document Processing

The assessor discovers change-in-ownership properties primarily through review of deeds and other recorded documents. Documents are scanned into the computer system at the recorder's office, then printed by the assessment technician assigned to deed processing. The assessment technician collates deeds with *Preliminary Change of Ownership Reports* (PCORs), deeds of trust, or other related documents. The assessment technician reviews parcel maps to ensure deed descriptions of the transferred properties and assessor's parcel numbers (APNs) printed on the deeds are correct. A Tuolumne County ordinance requires the addition of the APN to all recorded documentation regarding the transfer of real property.

The assessment technician reviews deeds to determine which transfers are reappraisable. The technician also enters non-reappraisable deed information on the assessor's database and forwards reappraisable deeds to another assessment technician, who collects the property records, logs these deeds, and distributes them to appraisers by assigned area.

The assessor has no formal written procedures concerning transfer-document processing. Instead, technicians rely on memos, notes, and other reference material, collected in binders in work areas.

The assessor processed 2,621 changes in ownership for the 2002-03 lien date, slightly less than in the previous year. Numbers of changes in ownership processed in the previous four years are as follows:

ROLL YEAR	NUMBER PROCESSED
2001-02	2,786
2000-01	2,307
1999-00	2,127
1998-99	1,827

We reviewed several properties recently valued by the assessor for changes in ownership. We found the assessor establishes the correct base year, uses reasonable appraisal techniques, and applies the inflation factor correctly.

To discover changes in ownership brought about by the death of a property owner, the assessment technician makes a daily check of obituary notices in local media sources available on the Internet. She also receives a monthly list from the County Recorder's Office of death certificates filed in Tuolumne County and a separate list of recently deceased persons in other counties who may own property in Tuolumne County.

The assessment technician checks the county's Crest computer system database against the recorder's lists of deceased persons and the printed obituaries for property owner matches. She then sends a locally developed Change in Ownership Statement (informational only) to the executor. She also sends a Parent-Child Exclusion claim form, where warranted, and a letter to beneficiaries explaining that the homeowners' exemption will be removed from the parcel until the beneficiary takes title and makes the property his or her permanent residence.

When processing multiple-interest transfers, the assessor's staff uses the property ownership divisions indicated on the deed. If no ownership percentage is indicated on the deed, staff divides ownership evenly.

Both the assessor's office and the recorder's office provide PCOR forms free of charge at the public counter. About 98 percent of transfer documents are accompanied by a PCOR. The recorder's office charges a \$20 fee when a PCOR is not submitted. We noted that PCORs accepted by the assessor were all properly signed by the transferees.

The assessor's discovery and document processing programs are well organized and appear to function smoothly. However, there is an area that could be improved.

RECOMMENDATION 6: Apply the penalty required by section 482 when a *Change of Ownership Statement* is incomplete, not returned timely, or not returned at all.

In our previous survey of Tuolumne County, we recommended the assessor apply the 10 percent or \$100 penalty required by section 482. The penalty must be applied when a property owner required to file a *Change of Ownership Statement* (COS) either fails to file the statement within the mandated 45 days or files an incomplete statement. We found the assessor has not implemented our recommendation. He still does not impose a penalty when COS forms are not returned, are not returned within 45 days, or are returned incomplete.

Most deeds in Tuolumne County are accompanied by a PCOR. If a deed is received without a PCOR and staff determines the property is reappraisable, staff sends a COS to the new owners. If staff determines the deed does not create a reappraisal (e.g., it is a transfer between husband and wife), no COS request is sent. If staff does send a COS, and it is not returned, staff sends a second notice approximately one month later. If there is no response to the second notice, staff takes no further action. Additionally, if the COS is not returned timely or is incomplete, no action is taken.

Section 482(a) states, in part, "If a person or legal entity required to file a statement described in Section 480 fails to do so within 45 days from the date of a written request by the assessor, a penalty of either: (1) one hundred dollars (\$100), or (2) 10 percent of the taxes applicable to the new base year value...whichever is greater, ...shall be added to the assessment made on the roll...."

We examined several property records for taxpayers who did not file a PCOR or respond to a request for a COS. While these property records indicated the COS form had not been filed, none of the records showed a penalty had been applied. And no penalty was indicated on the roll.

The absence of either a PCOR or a COS makes reappraisal difficult, as the assessor will not have obtained information concerning the type of transfer, terms of the sale, possible personal property included in the sale, and whether the property is income-producing.

Also, the COS form sent by the assessor describes the section 482(a) penalty requirement. By failing to apply the required penalty, the assessor not only ignores the law and makes reappraisal more difficult, but he allows taxpayers to believe they do not need to respond to the requests or demands made by his office.

We recommend the assessor apply the section 482 penalty when the COS is not returned, is returned late, or is incomplete.

Legal Entity Ownership Transfers (LEOP)

Section 64 provides that certain transfers of ownership interests in legal entities are changes in ownership of all real property owned by the entity and its subsidiaries. Rule 462.180 provides a detailed interpretation (with example) of section 64 changes in ownership or control and applicable exclusions.

Discovery of such changes in ownership is difficult because ordinarily there is no recorded notice of the transfers.

The BOE's LEOP unit investigates and verifies changes in control and ownership reported by legal entities and transmits to each county a listing, with corresponding property schedules, of the entities that have reported a change in control under section 64(c) or change in ownership under section 64(d). However, many of the acquiring entities do not provide detailed information pertaining to the counties in which they have property, the assessor's parcel number, or how many parcels they own. Because of lack of reliable data provided by the entities, LEOP advises assessors to thoroughly research each named entity's holdings to determine that all affected parcels are identified and properly appraised.

The assessor receives the LEOP report from the BOE's LEOP unit and reviews the report for transfers of property in Tuolumne County. We examined property records for a sample of legal entities which had experienced changes in control. We found the assessor revalued these properties as of the dates of transfer reported by the BOE's LEOP unit. Transferred properties were generally assessed using both the sales comparison and the income methods. We determined the assessor's LEOP program is efficient and well managed.

Exclusions

Certain transfers are excluded from reassessment, including transfers between a parent and child, or grandparent and grandchild when the parent is deceased. To receive this exclusion, the transferee (whether grandparent, parent, child, or grandchild) must submit a claim with the assessor. When the exclusion sought is for a transfer between a grandparent and grandchild, the claim must include written certification that the parents of the grandchild were deceased on the date of transfer, and that the grandchild did not already receive other exempted real property from his or her parents. In addition, the transferor must certify that he or she is the grandparent, parent, child or grandchild, must verify whether or not the transferred property is the transferor's principal residence, and, if not the principal residence, must provide information regarding other real property transferred to an eligible transferee.

The assessor processed 271 parent-child transfers in 2000-01 and 232 in 2001-02. We found the assessor reports these exclusions to the BOE as required by law. Staff also keeps a database of section 63.1 claims processed.

We reviewed several claims for exclusion of parent-child transfers processed by the assessor in 2002 and 2003. We found that a little less than half of the claims were for properties that were not the principal residences of the transferors. Staff checks all claims for exclusion of properties other than a principal residence against a BOE-provided list of claimants who have reached the \$1 million dollar limit for transferring excluded properties other than their principal residences. In one case, the assessor's review of the BOE list caused the removal of the exclusion for one property of the claimant.

Section 69.5 generally allows persons over age 55 to transfer the base year values of their original properties to replacement properties that are of equal or lesser value. To obtain the relief, a proper claim form must be filed with the assessor. The assessor processed four such claims for the 2000-01

lien date, and seven claims for the 2001-02 lien date. We reviewed several of these claims and others submitted for the previous five years. We found that the assessor granted claims that were submitted timely and where the other conditions of section 69.5 were met. The assessor rejected several claims because the new properties had higher market values than the properties sold.

New Construction

Section 71 requires the assessor to determine the full cash value of newly constructed real property as of its date of completion, or on each lien date while construction is in progress. When the assessor appraises completed new construction at full cash value, a new base year value is created for the newly constructed portion. Rule 463 further governs the assessment of new construction. Practical guidelines for defining and valuing new construction are found Assessors' Handbook Section 502, *Advanced Appraisal*, Chapter 6.

Discovery

Most new construction activity is discovered from building permits. The assessor receives an average of about 2,200 permits annually from two permit-issuing agencies, the City of Sonora and the County of Tuolumne. Other discovery methods include newspaper articles, business property statements, and field canvassing. The assessor's office does not have a self-reporting program. Cost questionnaires are mailed out only as needed. All permits are field reviewed (permits valued at \$2,000 or less are usually dropped during the initial screening phase but may be investigated if multiple permits involve the same property). The following table shows the permit workload of the assessor for the last five years:

Fiscal Year	Total Number of Permits Received	Total Number of Permits That Generated Value	Total Value Added From New Construction	Total Number of Roll Units
2002-03	2,342	1,379	\$97,861,199	1,191
2001-02	2,115	1,201	\$65,303,020	1,071
2000-01	2,151	1,225	\$56,977,141	1,029
1999-00	2,160	1,101	\$58,757,385	928
1998-99	2,001	1,107	\$35,209,074	848

Permit Processing

The assessor receives approximately 100 permits each month from the City of Sonora and the Tuolumne County Building Department. The permits and transfers are tracked by the assessor's computer system. Permits that evidence construction in progress on lien date are also identified by a special computer code. The processing of permits involves the following steps:

- The assistant assessor screens permits for new construction (discarding permits for mechanical, plumbing, electrical, maintenance, repairs, and replacement) and single permits in the amount of \$2,000 or less. The business division is notified of any building permit activity that indicates leasehold or tenant improvements.
- The processing clerk pulls the building record top sheet and attaches the permit. Maps received with the building permits are identified by APN and are separately filed after review and valuation.
- The processing clerk inputs the permit information, including the permit number, the building code letters (e.g., BP, reappraisal reason, and permit assignment date (same as entry date)).
- The building record with the permit is flagged and filed in a separate drawer.
- The appraisers compute the new construction and supplemental values on the building record.
- The completed permits are forwarded to the assistant assessor for review.
- The completed values are inputted by the processing clerk and supplemental assessments are generated.
- The building permits are detached from the building record and separately filed. Discarded permits are kept for three months. Permits involving reappraisable activity are kept for one year.

New Construction Valuation

The assessor values new construction by estimating the full value of new construction as of the date of completion or, if there is construction in progress, as of the lien date. When the construction is complete, the assessor establishes a new base year value. In valuing the new construction, several cost sources are used, including costs published in Assessors' Handbook Section 531, *Residential Building Costs*, the property owner's reported cost, and costs published by Marshall Valuation Service. The value of new construction associated with commercial, industrial, or special use properties is estimated using the market approach or income approach, or by reference to historical cost or data from Marshall Valuation Service.

Construction in Progress

Section 71 requires the assessor to enroll construction in progress at its fair market value on each lien date. On subsequent lien dates, if the new construction is still incomplete, the assessor must again enroll the construction in progress at its fair market value. This process continues until the new construction is complete, at which time the new construction is assessed at its fair market value upon completion and a base year value assigned. We found no problems in the valuation of construction in process.

Valuation

While the assessor generally values and enrolls new construction correctly, we did note two areas that need improvement.

RECOMMENDATION 7: Substantiate new construction discounts on residential swimming pools.

It is the assessor's policy to assess newly constructed residential swimming pools at a discounted percentage of historical cost. Absent any market evidence to the contrary, the typical economic costs of swimming pools may well represent market value. Any adjustment to reported actual costs should be based on a study of market transactions. The assessor has no current documented study to support this adjustment.

We recommend the assessor discontinue his practice of arbitrarily adjusting reported historical cost of swimming pools that compare favorably with typical economic costs, unless a sales study supports this practice.

Supplemental Assessments

Section 75 et seq. require the assessor to appraise property at its full cash value as of the date the property changed ownership or the date of completion of new construction. The increase or decrease in assessed value resulting from a change in ownership or new construction is reflected in a prorated assessment (the supplemental assessment) that covers the portion of the fiscal year remaining after the date of change in ownership or completion of new construction. Rule 463.500 governs the establishment of the date of completion of new construction.

We reviewed the assessor's procedures for compliance with the Revenue and Taxation Code sections relating to supplemental assessments. The assessor's policy is to issue supplemental assessments whenever there is a change in ownership or completion of new construction. The supplemental assessments are computer-generated. The total supplemental assessment process takes approximately 109 days from reappraisal event date to supplemental bill date. The values are then posted to the supplemental roll. Small supplemental assessments are not enrolled, as Tuolumne County Resolution No. 27-93, effective March 2, 1993, authorizes the assessor to cancel supplemental assessments that result in an assessment of \$20 or less. The following table shows the number of supplemental assessments processed by the assessor's office and the taxes billed for the last five years:

Fiscal Year	Number of Records	Amount of Tax
2001-02	3,679	\$1,427,382
2000-01	3,192	\$1,066,987
1999-00	2,563	\$ 820,529
1998-99	2,112	\$ 501,268
1997-98	2,100	\$ 542,872

In our review of the assessor's supplemental assessment processing program, we found two problems that should be addressed.

RECOMMENDATION 8: Make supplemental assessments for structural leasehold improvements and possessory interests assessed on the unsecured roll.

We found that the assessor does not enroll supplemental assessments for structural leasehold improvements and possessory interests assessed on the unsecured roll.

Section 75.14 provides that all property subject to the assessment limitations of article XIII A shall be subject to supplemental assessment. Leasehold improvements and possessory interests, which are real property, are subject to supplemental assessment. The assessor's practice is contrary to law.

We recommend that the assessor comply with statutory provisions by issuing supplemental assessments for structural leasehold improvements and possessory interests assessed on the unsecured roll.

California Land Conservation Act Property

Agricultural preserves may be established by a city or county pursuant to the California Land Conservation Act (CLCA) of 1965 for the purpose of determining boundaries of areas in which the city or county is willing to enter into contracts with property owners. Property owners in an agricultural preserve who choose to enter into a contract agree to restrict the use of their lands for agriculture and compatible uses in exchange for assessment at a restricted value. Lands under such contracts are valued for property tax purposes by a methodology based upon agricultural income-producing ability, including income derived from compatible uses (e.g., hunting rights and communications facilities). They are assessed at the lowest of the restricted value, the current market value, or the factored base year value. Sections 421 through 430.5 govern the assessment of lands subject to agricultural preserve contracts. Assessors' Handbook Section 521, *Assessment of Agricultural and Open-Space Properties* (AH 521), provides BOE-approved guidance for the appraisal of these properties.

For the 2002-03 roll, Tuolumne County had a total of 118,146 acres under CLCA contract, with 661 acres in nonrenewal status. The total assessed value for land and living improvements was \$61,049,374, or 1.5 percent of the total assessed value on the 2002-03 local roll of approximately \$4.0 billion. The

following table shows a five-year history of acreage under CLCA contract and land in non-renewal status:

ROLL YEAR	NUMBER OF PARCELS	CLCA ACRES	NONRENEWAL ACRES	TAXABLE VALUE OF LAND	TAXABLE VALUE OF IMPROVEMENTS	TOTAL TAXABLE VALUE
2002-03	913	118,146	661	\$24,150,344	\$36,899,030	\$61,049,374
2001-02	911	117,812	1,176	\$23,699,950	\$32,757,766	\$56,457,716
2000-01	893	116,606	1,810	\$23,542,433	\$31,116,087	\$54,658,520
1999-00	862	115,793	3,345	\$27,019,782	\$29,574,186	\$56,593,968
1998-99	863	115,321	3,487	\$26,318,881	\$28,634,580	\$54,953,461

The acreage under CLCA contract has remained relatively stable since 1998. The decline in nonrenewal acreage due to expired contracts was offset by an increase in new CLCA contracts.

The valuation of CLCA properties is the responsibility of four real property appraisers and the assistant assessor. Field reviews are conducted only when there is a change in ownership, new construction, or any other activity that triggers a value review. The agricultural preserve assessment program is automated (the variable items inputted are the capitalization rate and economic income). The computer program calculates the restricted values and compares the restricted values with the factored base year values to determine the correct taxable value. In Tuolumne County, the total (land and improvements) taxable value of property subject to a CLCA contract averages less than \$520 per acre. Therefore, market value is rarely the lowest value indicator and is presumed to set the upper limit of value.

Most of the rural land in Tuolumne County consists of grazing land, which makes up approximately 91 percent of all CLCA properties. In our last survey, we noted that the assessor was using Animal Unit Months (AUM's) as a unit of comparison for valuing grazing land. However, agricultural production questionnaires are not currently being used to gather the necessary information (carrying capacity and economic rents) to arrive at values using AUM's. The only exception is the valuation of grazing permits on National Forest lands. The assessor uses an estimated AUM to value these permits. The United States Forest Service annually provides to the assessor a list of grazing permits showing the head/month fee, permittee, grazing allotment, gross acres, and cattle/headmonths.

Valuation of CLCA Property

Section 423(a)(1) requires the assessor to capitalize an annual income determined from market rents, imputed to the land being valued, based upon rent actually received and typical rentals received in the area for similar land in similar use.

The rural staff does not currently send out CLCA questionnaires requesting income, expense, and compatible-use information. Instead, the assessor relies on cash rent information obtained 10 years ago. For the past two years the assessor has used a 2 percent risk rate for all CLCA properties. Over a

four-year period, the assessor's risk rate has gone from 1.25 to 2 percent, but without a supporting study. The assessor has updated the Agricultural Preserve Questionnaire and plans to use it in preparing his 2004-05 roll.

Wells

RECOMMENDATION 9: Deduct a capital replacement allowance for irrigation wells that contribute to the income being capitalized.

The assessor does not allow for a return of the investment in irrigation wells as a deduction from gross income to land, as required by section 423. The return on wells is correctly included in the restricted value calculation for land.

Assessors' Handbook Section 521 (AH 521), *Assessment of Agricultural and Open Space Properties*, states that the appraiser should deduct a charge for a return on and of the value of improvements from the income stream prior to capitalizing the market income into value. Wells are classified as land for property tax purposes. Thus, return on investment in wells is included in the land capitalization rate; nonetheless, wells are a wasting asset, and an allowance for capital replacement must be subtracted from the income stream. The assessor's practice could result in incorrect valuation of wells on restricted land.

We recommend that the assessor deduct a capital replacement allowance for irrigation wells that contribute to the income being capitalized.

Risk Component

RECOMMENDATION 10: Develop appropriate risk components for CLCA properties.

The assessor uses a risk component of 2 percent in the valuation of all CLCA properties under CLCA contract, regardless of location, property characteristics, or crop. We found no support for the rate selection. Typically, farmers recognize a varying degree or level of risk among different types of agricultural properties.

AH 521 recommends a basic risk component of 1 percent as a standard guideline for the purpose of developing the capitalization rate used in the valuation of CLCA properties. Additionally, AH 521 notes that the risk component will vary according to the risks associated with the development of the income to be capitalized. Factors such as price stability, production costs, availability of water, and damage due to wind and flood might increase or decrease the risk for a particular property. In addition, because the location and characteristics of land varies throughout the county, it is reasonable to expect variations in the risk rate used by the assessor.

We recommend that the assessor follow the guidelines in AH 521 and develop appropriate risk rates for CLCA lands.

RECOMMENDATION 11: Obtain current agricultural rents and production information from owners of CLCA land.

The assessor's most recent land rent and compatible-use survey (questionnaire) was completed about 10 years ago. He still relies on this information to value his CLCA properties. Accurate assessment of lands under CLCA contracts depends on an accurate estimate of land rents, expenses, and production capacities of the land.

Section 423(a)(1) requires the assessor to capitalize an annual income based upon the rent actually received for the land and upon typical rental income received for land in similar use. In addition, the annual income must include income from compatible uses. Without sending an annual questionnaire to owners of CLCA properties, the assessor cannot obtain current market rents, compatible-use income, expenses, and production capacities.

We recommend the assessor send annual questionnaires to the owners of CLCA properties.

Declines in Value

Section 51 requires the assessor to enroll the lesser of either a property's factored base year value or its full cash value, as defined in section 110. When a property's current market value falls below its factored base year value on any given lien date, the assessor must enroll that lower value as the taxable value for that property. If, on a subsequent lien date, a property's value rises above the factored base year value, then the assessor must enroll the factored base year value as the taxable value. (See Letters To Assessors 92/63, 93/71, 95/54, and 96/52.)

The assessor currently monitors approximately 2,400 parcels with decline-in-value assessments. The table below lists the number of decline-in-value properties enrolled each year for the last five years:

ROLL YEAR	NUMBER OF DECLINES IN VALUE PROCESSED
2002-03	2,404
2001-02	2,607
2000-01	2,767
1999-00	2,737
1998-99	2,688

Discovery

The assessor currently has no formal program designed to aid in the identification of properties that may have declined in value. An earlier study, designed to discover possible declines in value, was abandoned due to lack of staff resources. Instead, the assessor relies on taxpayer contacts for reassessment and works decline-in-value reassessment requests on a case by case basis.

The assessor provides a brochure and a form entitled *Request for Property Review* at the public counter to facilitate taxpayer requests for value review. Correctly, the assessor does not require the taxpayer to attach a list of comparable sales. The form does ask the taxpayer to attach any pertinent appraisals or contracts, but does not indicate these items are mandatory.

Property values in Tuolumne County have generally risen in recent years, and the assessor is not required to review all property values on each lien date. However, properties may lose value due to damage, changes in the local economy, and other reasons. The assessor makes every effort to proactively discover such properties and to increase taxpayer awareness of the right to request a reassessment review.

Valuation

The assessor's staff enters decline-in-value data into the computer system, which assigns a special code to decline-in-value properties. Staff then transfers the data to a spreadsheet, where it can be sorted by district and provided to the appropriate appraiser. Decline-in-value files are usually worked at the end of the calendar year.

We reviewed the property records of several decline-in-value parcels to determine how the assessor values such properties and whether he is following mandated procedures for yearly review. We found that the assessor properly evaluates decline-in-value parcels on each lien date to determine the lesser of market value or factored base year value. He also correctly withholds the inflation factor adjustment from decline-in-value property values. And, as mandated by section 619, he includes the factored base year value on notices sent to taxpayers after review of decline-in-value properties.

We found most of the commercial properties in decline-in-value status were apartment and retail buildings. The assessor treats fixtures as a separate appraisal unit. We found no water companies or possessory interest accounts in decline-in-value status.

The assessor has an effective and well run decline-in-value program. Despite staff shortages, he has made an attempt to proactively identify decline-in-value properties and has greatly improved documentation of decline-in-value property records. We have no recommendations for improvement.

Taxable Government-Owned Property

Article XIII, section 3 of the California Constitution exempts from property taxation any property owned by local governments, except as provided in section 11. Section 11 of article XIII provides that land, and the improvements thereon, located outside a local government's or local government agency's boundaries are taxable if the property was taxable at the time of acquisition. Improvements that were constructed to replace improvements that were taxable when acquired are also taxable. These lands and taxable improvements are commonly referred to as *Section 11* properties.

In 1995, the California Supreme Court held that the limitations of article XIII A of the California Constitution also apply to Section 11 properties. Prior to this decision, these lands were commonly assessed at the lower of either fair market value or the 1967 (1966 for Inyo County) assessed value of

the land multiplied by the factor (referred to as the Phillips Factor) described in section 11 of article XIII. The Court's ruling means that such property must be assessed using the lowest of (1) the current fair market value, (2) the 1967 (1966 for Inyo County) assessed value of land multiplied by the Phillips Factor described in Section 11, or (3) the article XIII A factored base year value. In general, neither current market value nor the factored 1967 assessed value plays a significant role since, in most cases, they far exceed the article XIII A factored base year value.

Improvements, on the other hand, may not be valued by use of the restricted procedure applicable to land. If taxable when acquired, improvements will be valued at their full cash value as defined by article XIII A of the California Constitution. New construction of improvements that replace original improvements must be taxed at the lowest of (1) current full cash value, (2) factored base year value, or (3) the highest full value ever used for taxation of any improvements that have been replaced. By contrast, any new improvements built on Section 11 lands after acquisition by a government agency that do not replace improvements that were taxable when acquired are exempt from taxation.

Tuolumne County has 345 taxable Section 11 parcels with a total assessed value of \$39,707,567. Our review of the taxable-government owned properties in Tuolumne County confirmed that the current program is well managed and in compliance with existing property tax law.

Timberland Production Zone Property

Land zoned Timberland Production Zone (TPZ) is assessed in accordance with special TPZ site classifications that exclude the value of the standing timber. The assessed value of TPZ land each year must be its appropriate site value pursuant to section 434.5 plus the current market value of any existing, compatible, nonexclusive uses of land (section 435). The special assessment limitations do not apply to structures on TPZ lands or to reasonable site values for such structures. In other words, structures and supporting lands are subject to the same assessment treatment as other real property. Land zoned as TPZ that is not under a CLCA contract is assessed at the lowest of its appropriate site value, current market value, or factored base year value.

All of the TPZ land in Tuolumne County is in the Pine-Mixed Conifer Region. Approximately 67 percent of the timberland consists of site classes I and II. The remaining 33 percent is divided between site classes III and IV, with a remnant in site class V. We found that the site values are used in an appropriate manner to assess TPZ land.

Improvements on TPZ land are required to be assessed in the same manner as other improvements. Our review of the TPZ appraisal records indicated that improvements on these lands are properly assessed.

The following chart shows a five-year history of TPZ property located in Tuolumne County:

ROLL YEAR	PARCELS	ACRES	TPZ LAND VALUE	BUILDING SITES	REZONING PENDING	IMPS VALUE	TOTAL ASSESSED VALUE
2002-03	375	83,905	\$9,482,519	\$281,897	\$0	\$1,496,311	\$11,260,727
2001-02	375	83,904	\$9,346,716	\$270,824	\$0	\$1,455,060	\$11,072,600
2000-01	372	83,787	\$9,601,293	\$242,971	\$90,975	\$1,395,950	\$11,331,189
1999-00	372	83,787	\$9,763,173	\$238,222	\$84,331	\$1,273,354	\$11,359,080
1998-99	374	83,786	\$9,724,134	\$233,901	\$285,749	\$1,254,421	\$11,498,205

Compatible Use

RECOMMENDATION 12: Send questionnaires to taxpayers requesting compatible use information on TPZ parcels.

We found the assessor does not send a questionnaire to taxpayers requesting information on compatible uses of TPZ parcels. This oversight was discussed in our previous survey as well.

Section 435(a) provides that the taxable value of timberland shall consist of the appropriate site class value pursuant to section 434.5, plus any value attributable to existing, compatible, nonexclusive uses of the land. The value of compatible uses is to be annually determined and added to the site class values. Such uses typically include grazing, hunting, and recreational activities. Since compatible-use information is not requested, this could result in inappropriate assessments.

We recommend that the assessor send questionnaires to taxpayers to request compatible-use information on TPZ properties.

Roll Notation

RECOMMENDATION 13: Identify TPZ parcels on the assessment roll as required by section 433.

We found that the assessor does not include the notation required by section 433 on the assessment roll.

Section 433 provides that when land is zoned as Timberland Production Zone, a notation of such zoning shall be made on the assessment roll using the words "Timberland Production Zone" or the initials "TPZ." Since a TPZ property is restricted in use, this information should be available to the public upon review of the secured tax roll.

We recommend that the assessor include the notation required by section 433 on the assessment roll.

Possessory Interests

A taxable possessory interest (PI) is a possession, or a right to possession, of publicly owned real property, where the possession provides a private benefit to the possessor and is independent, durable, and exclusive of rights held by others. In the case of privately-owned property, a property tax assessment is based on the fee simple value of the property. In the case of a taxable possessory interest, the assessment is based on the value of the rights actually held by the possessor.

Discovery

The assessor's program for discovering PI's includes an annual polling of all government entities in the county that requests information on agreements with private parties. The assessor annually contacts 18 public agencies by letter or in person to request current information on new or changed tenancies or rents. As a result of the research, the assessor has enrolled 1,086 separate PI assessments for the 2002-03 assessment roll, with a total assessed value of \$81,800,011.

For lien date 2002, PI's assessed in Tuolumne County consisted of the following property types:

TYPE	NUMBER OF POSSESSORY INTERESTS BY TYPE	ASSESSED VALUE
USFS Cabins	660	\$43,595,717
Commercial	82	33,891,020
Rafting	8	262,000
Campgrounds	9	647,009
Aircraft Storage	88	832,100
Government Housing	95	1,634,379
Grazing	30	391,700
Mining Claims	114	546,086
Total	1,086	\$81,800,011

Houseboat PI's

RECOMMENDATION 14: Separately assess the possessory interest portion of houseboat assessments.

In our previous survey, we determined that permits issued to houseboat owners at a publicly owned reservoir in Tuolumne County constituted taxable PI's. The permits usually transfer with the houseboats when they are sold. We discovered that the assessor incorrectly combined the value of the houseboat

and the value of the permit into a single personal property assessment for the houseboat. This practice continues.

Various statutes and BOE rules provide that real property and personal property are subject to different assessment procedures. A possessory interest (the houseboat's permit to use the lake) is real property, so its assessment is subject to the restrictions of article XIII A of the California Constitution and the change in ownership criteria set forth in section 61(b). The houseboat is personal property and its assessed value is not subject to the restrictions of article XIII A.

The correct procedure would require enrolling a houseboat as personal property and assessing the permit as a PI in real property.

We recommend the assessor separately assess a PI created by a permit as real property and assess the houseboat as personal property.

Aircraft Hangar PI's

RECOMMENDATION 15: Reappraise taxable possessory interests in accordance with section 61(b)(2).

We found that the PI's for aircraft hangars at county airports are revalued whenever there is a change in rental amounts.

During our survey, we found that the assessor uses an appropriate three-year anticipated term of possession for these properties. However, when the rent changes (sometimes annually), these properties are being reappraised before the end of the three-year anticipated term. This practice is in conflict with section 61(b)(2), which allows a new base year value to be created only at the end of the reasonably anticipated term of possession used by the assessor to value the PI. The result of the assessor's practice is that the PI's for aircraft hangars are appraised more frequently than allowed by law, and the hangars are probably overassessed.

We recommend that the assessor reappraise taxable PI's for aircraft hangars in accordance with section 61(b)(2).

Historical Property

Government Code section 50280 provides that an owner or agent of an owner of a qualified historical property may enter into a contract with the legislative body of a city, county, or city and county restricting the use of that property in exchange for valuation according to a statutorily-prescribed capitalization of income method. Section 50280.1 stipulates that in order for a property to qualify as a historical property, it must be listed on the National Register of Historic Places or be listed on a state, county, or city register as historically or architecturally significant.

Historical properties are assessed annually at the lowest of the factored base year value, the current market value, or the restricted value. The restricted value must be determined by the income

capitalization method. In this method, a fair or market rent less "ordinary and necessary" expenses is capitalized at a rate that is not derived from the market but is a summation of:

- An interest component that is determined annually by the BOE;
- A risk component of 2 percent (4 percent if the property is owner-occupied);
- A component for property taxes; and,
- A component for amortization of the improvements.

In Tuolumne County, there are three properties subject to historical property contracts. All are single-family residences. The total roll value for the 2003 lien date was \$287,938, and for the 2002 lien date, \$272,094.

We examined property records for the currently enrolled historical properties. We found the assessor has copies of the historical property (Mills Act) contracts signed by all property owners involved, that all contracts meet the requirements of Government Code section 50281, and that the contracts were signed prior to the properties being assessed as historical properties.

Valuation

The assessor correctly values all properties with historical property restrictions using the income method. Each property's file contained a computerized worksheet, titled *Mills Act Value Comparison Sheet*, with valuation information for each year the property had been under Mills Act contract. The worksheets are divided into sections showing: (1) the factored base year value for the lien date reviewed and computations providing current tax liability if the property were not under Mills Act contract; (2) the market rent, expenses, and various ratios used to derive the income stream capitalization rate; (3) the calculation of the property's value under historical property restrictions; and (4) the amount of tax reduction.

The assessor uses the correct method to determine the capitalization rate to be applied to the income stream. His worksheets show use of the BOE-announced interest rate, the correct risk rate for owner-occupied properties (4 percent), the current tax rate, and an acceptable 40-year life to determine the amortization rate.

We found additional documentation in the historical property records showing the assessor compared market rents, as mandated in section 439.2, and properly deducted property expenses. Thus, the assessor includes thorough documentation which shows his method of valuation. However, we did find one area of concern.

RECOMMENDATION 16: Value historical property using current owner expense data.

We found that, although the assessor listed expense information used to determine the value of historical restricted property, the expenses did not appear to be current. Only one property file contained a copy

of the assessor's questionnaire returned by the taxpayer. This returned questionnaire was filed when the historical property assessment was established. Expense information provided was used by the assessor for the initial year of the Mills Act contract and has been used for all subsequent years.

In other cases, we found that the assessor used the same expenses for fire insurance, ground maintenance, utilities, and other items from 1995 through 2003. It seems unlikely that utility and fire insurance expenses would have remained unchanged since 1995. The rental rates used for these properties, set through market analysis, were increased from 1995-96 through 2003-04.

Section 439.2(a)(3) states, in part, "For purposes of this section, income shall be determined in accordance with rules and regulations issued by the board and with this section and shall be the difference between revenue and expenditures."

By using outdated expense allowances, the assessor may have overstated the imputed net income, and hence the taxable value, to the restricted properties.

We recommend that the assessor send annual expense questionnaires to owners of historical properties and that he use current expense information when valuing historical properties.

Leasehold Improvements

Leasehold improvements are all improvements or additions to leased property that have been made by the lessee. Leasehold improvements include structure items and fixtures paid for by the lessee. Improvements installed by the tenant or lessee can be secured to the real property or assessed to the tenant on the unsecured assessment roll.

Commercial, industrial, and other types of income-producing properties require regular monitoring by the assessor because, as tenants change over a period of time, they may add and remove improvements. These changes must, by law, be reflected in the property's assessment if they qualify as new construction.

When real property is reported on the business property statement, coordination between the real property and business property divisions of the assessor's office is important. The reported cost should be examined by both an appraiser in the real property division and an auditor-appraiser in the business property division. The divisions should determine the proper classification of the property to ensure appropriate assessment by each division and avoid escapes and double assessments. The assessor's office must determine whether costs are for repair and maintenance and are, therefore, not assessable, whether additions are properly classified as structural improvements or fixtures, and if additions are properly enrolled.

Discovery of Leasehold Improvements

In Tuolumne County, the most common method of discovering leasehold improvements is by reviewing annual business property statements. Staff also gleans information regarding possible tenant improvements from building permits, through audits of commercial properties, and from income and new

construction questionnaires. The assessor does not require shopping center owners to submit tenant leases; however, he does obtain lists of tenants from the county's two main shopping centers.

Valuation

The assessor may value leasehold improvements as either structures or fixtures, depending on the type of improvement. Schedule B of Form BOE-571-L, *Business Property Statement*, is designed for reporting of costs incurred by tenants while making improvements to land or buildings used in the operation of their businesses.

In Tuolumne County, the auditor-appraiser assigned to value unsecured business property reviews property statements submitted by business owners, who are often tenants in shopping centers. Costs entered on Schedule B are generally assessed as fixtures by the auditor-appraiser, unless he discovers a building permit indicating the reported work is structural in nature. When a new tenant reports costs in a lump sum, the auditor-appraiser will ask the real property appraiser assigned to commercial real property to investigate these costs.

The assessor values fixtures using BOE cost tables. Originally, all fixtures were valued based on a 15-year life. The assessor now assigns fixtures a 12-year life if the business has personal property, also assigned a 12-year life.

Business appraisal staff indicates all costs are investigated, with no specific dollar limit. During our review of unsecured property records, we noted the assessor's database contained items of relatively low value, such as computers and a time clock.

We found the assessor's leasehold improvement assessment program is generally well organized. However, there is one area needing improvement.

RECOMMENDATION 17: Document classification of fixtures and structural leasehold improvements, as warranted.

We examined several business property statements for unsecured accounts where business owners reported costs for both structural improvements and fixtures. We found that cost items reported as structural improvements were usually listed on the assessor's database printouts as leasehold improvements, and were sometimes factored and other times depreciated. There was no documentation in the property records describing these leasehold improvements or indicating how the assessor determined reported items to be fixtures or structures. Staff indicated that the expenditures were considered fixtures when no related building permits could be identified.

The assessor may have correctly determined that some reported structural improvements are, in fact, fixtures. However, since none of the files we reviewed contained documentation showing the assessor investigated the reported structural leasehold improvements and determined that they were fixtures, we could not be certain that reported structures assessed as fixtures were indeed fixtures.

Although leasehold improvements may be classified as fixtures or structures, there are important differences between proper assessment practices for structures and fixtures. It is, therefore, important to properly classify leasehold improvements. Differences occur in several areas: (1) fixtures are valued differently than structural leasehold improvements; (2) fixtures constitute a separate appraisal unit when measuring declines in value; (3) fixtures are generally not subject to supplemental assessment, but structural improvements must be supplementally assessed when appropriate; and (4) the full value of both fixtures and personal property must be considered when determining whether a business property account is subject to mandatory audit.

We recommend the assessor document his investigation of leasehold improvement costs, particularly costs reported as structural.

Water Company Property

Water company property assessed on the local tax roll may include private water companies, mutual water companies, and portions of government-owned water systems. Each type presents different assessment problems.

The assistant assessor has the task of appraising all the water companies in the county. Real property owned by water companies was assessed at \$864,057 for the 2002-03 roll year. The total assessed value reflects seven mutual water companies at zero value and seven California Public Utilities Commission (CPUC) regulated water companies. The assessor does not send annual business property statements to CPUC regulated water companies, nor does he separately identify and assess personal property owned by water companies.

The assessor is currently using the historical cost less depreciation (HCLD) approach to value. This approach is a generally accepted method for valuing rate-base regulated utilities. The assessor annually sends Form BOE-540-S, *Water Company Property Statement*, to owners of regulated water companies (the return rate is typically less than 50 percent). The 10 percent penalty required by section 463 is applied to those companies that do not respond. However, due to the lack of current information, several water company assessments are based on dated information. During our current review, we found several issues that needed to be addressed.

RECOMMENDATION 18: Obtain a copy of the annual CPUC report for each water company.

The assessor does not request copies of the annual financial statement required by the CPUC for water companies regulated by the CPUC. However, the assessor may contact the CPUC directly. These reports are public record, and CPUC staff will furnish copies upon request. These reports contain the data necessary for developing an income approach and an indicator based on HCLD. Without this information, assessments will not reflect ongoing property changes, possibly resulting in escaped new construction.

We recommend the assessor not only make a request for copies of the annual report from the taxpayer, but also from the CPUC. The information obtained will provide an audit trail for the assessor's staff and will promote proper valuation.

RECOMMENDATION 19: Require CPUC water companies to file an annual property statement to ensure proper classification and assessment of personal property.

There are seven private water companies in Tuolumne County that are regulated by the CPUC. There is no evidence in the assessor's files of an annual business property statement (BPS) (Form AH 571-L). The assessor's current practice is to not mail out or request a BPS from CPUC water companies. Without this information, the assessor has no way of identifying personal property for assessment or determining what changes have occurred to the plant or equipment in the preceding year.

We recommend the assessor request a BPS be submitted by all CPUC water companies to ensure proper classification and assessment of personal property.

Mineral Property

Tuolumne County has four quarry properties and a significant number of unpatented mining claims. While it was once a major contributor to the local economy, mining has waned in the county over the last 10 years. The majority of mineral properties in the county are now unpatented mining claims that are most commonly held for recreational or speculative use.

The county receives claim information from the Bureau of Land Management and compares this data with its tax rolls to identify new claims and those claims that have been released. The county's practice with regard to unpatented mining claims is to group those claims that have common ownership and share contiguous borders. Approximately one-third of the mining claims in the county can be grouped in this manner. The remaining two thirds of the unpatented mining claims in the county fall below the county's low-value property exemption threshold and are not assessed.

RECOMMENDATION 20: Assess mineral properties according to the requirements of rule 469.

In prior surveys, we found that the assessor did not adjust the base year value of the mineral rights to account for depletion or addition of the mineral reserves, but only escalated the value by the California Consumer Price Index (CCPI) each year. This practice continues. In addition, the assessor does not determine the current market value of mineral properties each year.

The proper procedure is to reduce the adjusted base year value of the mineral appraisal unit by the value of the minerals produced in the past assessment year and to add the current market value of new reserves (rule 469(e)(1)(B)). Once this adjusted base year value has been determined, it should be compared against the current market value of the appraisal unit. The lower of the two values should be enrolled. Not assessing mineral properties according to the requirements of rule 469 may result in the over assessment of the mineral properties.

We recommend that the assessor bring mineral property appraisals into compliance with rule 469.

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

The assessor's program for assessing personal property and fixtures includes the following major elements:

- Discovery and classification of taxable personal property and fixtures.
- Mailing and processing of annual property statements and questionnaires.
- Annual revaluation of taxable personal property and fixtures.
- Auditing taxpayers whose assessments are based on information provided in property statements.

Annually, the assessor's business property staff processes over 1,400 property statements, audits about 15 accounts, and enrolls approximately 180 aircraft and 1,900 vessels.

Audit Program

A comprehensive audit program is essential to the successful administration of any tax program that relies on information supplied by taxpayers. A good audit program discourages deliberate underreporting, helps educate those property owners who unintentionally misreport, and provides the assessor with additional information to make fair and accurate assessments.

Mandatory Audits

Pursuant to section 469, audits are mandatory for taxpayers reporting business tangible personal property and trade fixtures valued at \$400,000 or more.

RECOMMENDATION 21: Audit the books and records of professions, trades, or businesses pursuant to section 469.

We found that the assessor is currently behind on three of his mandatory audit accounts. The assessor has a total of 53 mandatory audit accounts, resulting in an average annual workload of 13 audits per year.

The mandatory audit program verifies the reporting of the largest business property accounts and forestalls any potentially large assessment errors. The further removed the audit is from the year being audited, the more difficult it may be to obtain the necessary records.

We recommend that the assessor bring the mandatory audit program to current status.

RECOMMENDATION 22: Audit mandatory accounts of exempt organizations.

The assessor does not audit organizations meeting the mandatory audit threshold if those organization also receive an exemption from property taxation.

Section 469 and rule 192 require that assesseees owning, controlling, or possessing tangible business personal property and fixtures with a full cash value of \$400,000 or more for four consecutive years must be audited every four years. Exempt organizations are subject to audit under sections 469 and 470 as are any other types of businesses. According to Assessors' Handbook Section 504, *Assessment of Personal Property and Fixtures*, property owned by an exempt organization is assessable, even though there may not be a net taxable value. The statutory audit requirement is not contingent upon the ultimate disposition of the enrolled assessment.

Due to nonqualifying use, many organizations receive only partial exemptions on their properties. Moreover, an organization may fail to file a claim or may not qualify for exemption in a given year. In either case, the assessor must then enroll an assessment for the property. Assessments for exempt organizations must be prepared in the same manner as any other assessment, which includes the requirement to periodically audit the account. Failing to audit a mandatory account is contrary to an explicit statutory directive.

We recommend that the assessor audit mandatory accounts of exempt organizations.

Statute of Limitations

Section 532 requires that the assessor enroll an escape assessment discovered during an audit within four years after July 1 of the assessment year during which the property escaped assessment. If the assessor cannot complete an audit within the prescribed time, the assessor may request, pursuant to section 532.1, a waiver of the statute of limitations from the taxpayer to extend the time for making an assessment.

RECOMMENDATION 23: Obtain a signed waiver of the statute of limitations when an audit will not be completed in a timely manner.

The assessor does not request waivers of the statute of limitations from taxpayers when his staff anticipates an audit will not be completed in a timely manner.

Section 532 provides that an escape assessment found during an audit must be enrolled within four years after July 1 of the assessment year in which the property escaped assessment or was underassessed. If the assessor cannot complete the mandatory audit within the prescribed time limit, the assessor may ask the taxpayer to grant an extension of time. This can be accomplished by requesting that the taxpayer sign a waiver of the statute of limitations, as authorized by section 532.1. This waiver protects the taxpayer if there was an overassessment and allows the assessor to enroll an escape assessment if a reporting deficiency is discovered.

We recommend that the assessor seek waivers of the statute of limitations in those situations where mandatory audits will not be completed on time.

Nonmandatory Audits

A nonmandatory audit program serves several purposes in the assessment of personal property. Besides helping to mitigate taxpayer reporting errors, a nonmandatory program also allows for the investigation and resolution of special problems uncovered during the processing of property statements.

The assessor has completed 11 nonmandatory audits over the last four years. We found no problems with the assessor's nonmandatory audit program.

Audit Quality

An audit should follow a standard format so that the auditor-appraiser may easily determine whether the property owner has correctly reported all taxable property. Audit narratives and summaries should include adequate documentation, full value calculations, reconciliation of the fixed assets totals to the general ledger and financial statements, review of asset invoices, reconciliation between reported and audit amounts, an analysis of expense accounts, and an analysis of depreciation and obsolescence factors that may affect the business property.

We found that the assessor performs change in control (ownership) reviews, verifies leased equipment, enrolls construction in progress, accounts for supplies, and properly classifies equipment, among other things. In all cases, the audits were accurate, well documented, and supported by a comprehensive audit checklist defining the areas of investigation.

Business Property Statement Processing

Section 441 requires each person owning taxable personal property (other than manufactured homes) having an aggregate cost of \$100,000 or more to annually file a business property statement with the assessor; other persons must file a property statement if requested by the assessor. Property statements form the backbone of the business property assessment program. These statements cover a wide variety of property types, including commercial, industrial, agricultural, boats, and certificated aircraft.

For the 2002-03 assessment year, the assessor's business property division was staffed by one auditor-appraiser, one assessment clerk, and one part-time contract auditor-appraiser. The staff processed 1,419 business property statements, 1,873 vessel statements, and 176 aircraft statements during this period.

In our prior survey, we noted that, in some instances, depreciation schedules or fixed asset listings were attached to the business property statements without reference to the attachment on the property statement form. We found that this is no longer the case. However, we found some other problems with the assessor's property statement processing program.

RECOMMENDATION 24: Accept only completed business property statements.

We found that the assessor accepted numerous business property statements where Part 1(g) of BOE Form AH-571-L was not completed. The information requested in this section pertains to changes in ownership, related entities, leases, additional acquisitions, and participation of others during the previous year. We also found that many leasing companies failed to complete most of the first page of the business property statement.

Section 441 requires each person owning taxable personal property (other than manufactured homes) having an aggregate cost of \$100,000 or more to annually file a business property statement with the assessor; and any other person must file a property statement if requested by the assessor. These statements cover a wide variety of property types, including commercial, industrial, agricultural, boats, and certificated aircraft. Section 442 requires that the property statement shall show all taxable property owned, claimed, possessed, controlled, or managed by the person filing it and required to be reported thereon.

Without Part 1(g) of the property statement being completed, the assessor may be unaware of any changes in ownership that may have occurred. The lack of information on the business property statement filed by some of the leasing companies left the assessor with little if any information pertaining to the current status of the companies except for the costs of the leased assets.

We recommend that the assessor accept only completed business property statements. Incomplete business property statements, together with a letter detailing the deficiency, should be returned to the assessee for proper completion.

Authorized Signatures**RECOMMENDATION 25:** Accept only business property statements with authorized signatures, as provided in rule 172.

Several of the property statements we reviewed were signed by someone other than a qualified or authorized person. Of these, none had the assessee's written authorization on file with the assessor.

Rule 172 requires every BOE-prescribed property statement and mineral production report to be signed by the assessee, a partner, a duly appointed fiduciary, or an authorized agent. Statements filed on behalf of a corporate assessee must be signed by an officer, an employee, or an agent authorized by the board of directors to sign on behalf of the corporation. When a property statement is signed by an agent who is not a member of the bar, a certified public accountant, a public accountant, an enrolled agent, or a duly appointed fiduciary, the assessee's written authorization for that agent to sign the statement must be filed with the assessor. A property statement unsigned, or signed by an unauthorized agent, does not constitute a valid filing.

We recommend the assessor review business property statements to ensure they contain authorized signatures as provided in rule 172.

Estimated Assessments

RECOMMENDATION 26: Audit or visit taxpayers who fail to file business property statements for three or more consecutive years.

In our previous survey, we suggested that the assessor pay greater attention to businesses which have not filed business property statements over the prior four years. During our current review of business property statements, we found several accounts in which the assessor had made estimated assessments for four or more consecutive years without contacting the assessee.

Section 501 requires the assessor to estimate the value of business property belonging to anyone who does not comply with the reporting requirements. If a property statement was received for the previous year, it is usually reasonable to use this as a basis for estimating the current year's value. However, when making estimated assessments continue for several years without any new information, the values become increasingly susceptible to error. This practice can lead to inaccurate assessments and loss of tax revenue due to the expiration of statute of limitations.

Estimated assessments based on prior years reporting should be limited to three consecutive roll years. We recommend that, after this length of time, the assessor audit these accounts or at least visit the business to confirm the assets.

Business Equipment Valuation

Commercial, Industrial, and Agricultural Equipment

Assessors' offices use business property value factors that are derived by combining cost index factors (trend factors) with percent good factors for the valuation of machinery and equipment.

Section 401.5 provides that the BOE shall issue information that, in the judgment of the BOE, will promote uniformity in appraisal practices and in assessed values throughout the State. Pursuant to that mandate, the BOE annually publishes Assessors' Handbook Section 581, *Equipment Index and Percent Good Factors* (AH 581).

The assessor has adopted the price indices and depreciation tables recommended by the California Assessors' Association. Equipment valuation factors based on these tables are integrated into the computer system. We tested all of the assessor's valuation table factors. The results were accurate, with one exception.

RECOMMENDATION 27: Use the percent good factors in the AH 581 as intended.

The assessor currently uses minimum percent good factors for commercial, industrial, agricultural, and construction equipment. He has no documentation to support these minimum percent good factors. These factors are based on a position adopted by the California Assessors' Association (CAA), which were calculated without a study.

The CAA tables employed by the assessor use the AH 581 percent good factors except that they employ unsupported minimum percents good for older equipment. This means that very old equipment that is about to be retired is valued as though it has several years of profitable service remaining.

The percent good factors in AH 581 are based on the assumption that as business equipment ages, it gradually loses its ability to earn a profit for its owner. In some cases, equipment wears out physically to the point where it is not cost-effective to repair it. In other cases, the equipment may be in excellent condition physically but new technology, a changing market relative to the type of equipment, and other factors make the equipment obsolete.

Some equipment, when no longer cost-effective to operate, will have a salvage value, whereas other equipment will have a negative value due to the cost of disposal. The AH 581 factors assume that, on average, equipment will have a zero value when retired. For commercial and industrial equipment, the factors decline from 100 percent good when acquired to 1 percent good (99 percent depreciation) for equipment that has survived long past the average service life of similar equipment but is still in use.

Some older equipment maybe worth much more than 1 percent of replacement cost new, just as some newer equipment maybe worth substantially less than the percent good suggested by AH 581. When making appraisals of individual items of equipment, the assessor may use sales data, income data, or any other available evidence to find fair market value.

However, when using a mass appraisal tool such as the AH 581 tables, it is important to use the tables as presented. Use of unsupported minimum percents good may value some equipment correctly but will substantially overvalue most items of older equipment.

Accordingly, we recommend that the assessor use the AH 581 as intended in order to avoid overvaluations.

Computer Valuation

In order to promote uniformity in appraisal practices and assessed values and to comply with the requirements of section 401.5, the BOE publishes valuation factors in AH 581 (Table 6: Computer Valuation Factors) for use when valuing computer equipment.

We found that the assessor values computers using the BOE-recommended factors.

Leased Equipment

The business property division is responsible for the discovery, valuation, and assessment of leased equipment. This type of property is one of the more difficult to assess correctly. Common problems include taxable situs, reporting errors by lessees and lessors, taxability, valuation (whether the value of the equipment should be the lessor's cost or the cost for the consumer to purchase), and double or escape assessments resulting from lessor and lessee reporting. These issues are discussed in detail in Assessors' Handbook Section 504, *Assessment of Personal Property and Fixtures*.

One auditor-appraiser is in charge of tracking and valuing all leased equipment. The business property staff sends statements to all known lessors and lessees and reconciles all information submitted. As a general rule, lessors are assessed for leased equipment, including propane tanks. Lessees may be assessed when a lease agreement calls for assessment to the lessee or when the lessor is exempt but the lessee is not. The assessor also pays particular attention to whether the actual lease document is a lease or something other than a lease, such as a conditional sales contract. If a contract exists, the purported lessee is assessed as the owner of the property.

When the auditor-appraiser processes business property statements from leasing companies and other known lessors in the county, he checks to see if any items have gone off-lease (expired lease) and possibly escaped assessment for the current year. He accomplishes this by comparing lessee and lessor business property statements for common equipment in the current and previous years, and searching all business property reporting categories on the lessee's statement for the off-lease equipment. This equipment is often purchased by the former lessee and, as such, must be reported by the former lessee.

We reviewed a sample of business property files of lessors and lessees for compliance and found that the assessor is doing a good job in discovery, processing, tracking, and assessing leased equipment.

Aircraft

General Aircraft

Section 5363 requires the assessor to determine the market value of aircraft according to standards and guidelines prescribed by the BOE. Section 5364 requires the BOE to establish such standards to be used by the assessor. On January 10, 1997, the BOE approved the *Aircraft Bluebook-Price Digest (Bluebook)* as the primary guide for valuing aircraft, with the *Vref Aircraft Value Reference* as an alternate for aircraft not listed in the *Bluebook*.

The Tuolumne County assessor enrolled assessed 176 general aircraft on the 2002-03 assessment roll with a total assessed value of about \$8.2 million. We found that the assessor annually reviews the values of the aircraft to determine their full values.

Historical Aircraft

Aircraft of historical significance are exempt from taxation upon meeting certain requirements. Section 220.5 defines "aircraft of historical significance" as any aircraft which is an original, restored, or replica of a heavier than air powered aircraft which is 35 years or older, or any aircraft of a type or model of which there are fewer than five in number known to exist worldwide.

The historical aircraft exemption is not automatic. The owner of a historical aircraft must submit an affidavit on or before 5:00 p.m., February 15, and pay a filing fee of thirty-five dollars (\$35) upon the initial application for exemption. Along with these requirements, aircraft of historical significance are exempt only if the following conditions are met: (1) the assessee is an individual owner who does not hold the aircraft primarily for purposes of sale; (2) the assessee does not use the aircraft for commercial purposes or general transportation; and, (3) the aircraft was available for display to the public at least

12 days during the 12-month period immediately preceding the lien date for the year for which exemption is claimed.

The assessor granted 50 historical aircraft exemptions totaling about \$1,521,575 on the 2002-03 assessment roll.

RECOMMENDATION 28: Require evidence that aircraft receiving the historical aircraft exemption have been properly displayed according to section 220.5.

We found that the assessor was very liberal in his interpretation of the "available for display" requirement in section 220.5. In many cases the assessor allowed the historical aircraft exemption for aircraft that never left the owner's tiedown or hangar.

Section 220.5 exempts "aircraft of historical significance" that has been on public display for at least 12 days in the year proceeding the current lien date. To meet the "display" test, the aircraft owner (1) must announce to the public the times and dates of display, (2) display the aircraft at least four hours on each display date, and (3) display the aircraft in an area accessible to and able to accommodate the public. Lax enforcement of the requirements for public display may allow ineligible aircraft to be exempted from taxation.

We recommend that the assessor require that the schedule of displays be properly completed and that the information be verified before granting an exemption for aircraft of historical significance.

Vessels

Assessors in California are required to annually appraise vessels at market value and to assess all vessels with an assessed value above \$400, unless the county has a low-value property exemption. The Tuolumne County Board of Supervisors has passed a resolution that exempts personal property valued at \$2,000 or less.

In our previous survey, we recommended the assessor use only Form BOE 576-D, *Vessel Property Statement*, when applying the 10 percent penalty provision of section 463. Since 1999, the assessor has used Form BOE 576-D exclusively for all vessels in the county except houseboats.

For the 2002-03 assessment roll, the assessor enrolled approximately 1,900 vessels with a total assessed value of about \$2.87 million. The primary discovery sources are Department of Motor Vehicle (DMV) reports, marina lists, referrals from other counties, and information provided by the vessel owners themselves. Sources of valuation data include reported purchase prices and the *N.A.D.A. Marine Appraisal Guide* (NADA).

In general, we found that the assessor's vessel assessment program is well managed. However, there is one area that could be improved.

RECOMMENDATION 29: Require vessel owners to file annual vessel property statements for boats costing \$100,000 or more.

We found that the assessor does not send Form BOE-576-D, *Vessel Property Statement*, to the owners of those vessels costing over \$100,000. The assessor instead prefers to make yearly inspections of these vessels where they are moored.

Section 441 requires each person owning taxable personal property, other than a manufactured home, having an aggregate cost of \$100,000 or more for any assessment year, to file a signed annual property statement with the assessor. This provision also applies to all vessels, including non-commercial vessels. Having this information will provide the assessor with current and accurate data regarding replacement engines and new accessories.

Failing to require owners of such vessels to file a property statement increases the risk of inaccurate assessments based on insufficient information. Therefore, we repeat our prior recommendation that the assessor mail *Vessel Property Statements* annually to all owners of boats costing \$100,000 or more.

Manufactured Homes

A manufactured home is subject to local property taxation if first sold new on or after July 1, 1980, or by the owner's request for conversion from vehicle license fee to local property taxation. A manufactured home is defined in Health and Safety Code sections 18007 and 18008, and statutes prescribing the valuation and assessment of manufactured homes are contained in Revenue and Taxation Code sections 5800 through 5842. Manufactured homes should be classified as personal property and enrolled on the secured roll. If the home is situated on an approved permanent foundation system that meets the requirements of Health and Safety Code section 18551, it is real property and is not assessed as a manufactured home.

Statistical data showing a five-year history of the manufactured homes in Tuolumne County is shown in the following chart:

ROLL YEAR	NUMBER	ASSESSED VALUE	AVERAGE VALUE
2002-03	1,976	\$45,925,371	\$23,242
2001-02	1,943	\$44,979,032	\$23,149
2000-01	1,954	\$45,592,319	\$23,333
1999-00	1,905	\$46,383,177	\$24,348
1998-99	1,894	\$46,214,028	\$24,400

Manufactured homes are treated differently for assessment purposes than other personal property. Manufactured homes are entered on the secured roll with an established base year value that is subject to compounding by an inflation factor each year. As such, the taxes are paid in two installments, and

manufactured homes are subject to supplemental assessments when there is a change in ownership or new construction. The taxable value of a manufactured home is the lesser of its factored base year value or its full cash value on the lien date.

Valuation

Appraisers in Tuolumne County are assigned to geographical areas, which include several map books. The appraisers are responsible for most property types within these books, including manufactured homes.

The assessor learns of sales, new installations, and voluntary conversions of manufactured homes through periodic Department of Housing and Community Development (HCD) listings, building permits, dealer's reports of sale, tax clearance certificates, and park owner's reports. The assessor's discovery procedures are effective.

We reviewed numerous manufactured home assessments and found no problems.

Classification

In our prior survey, we recommended that the assessor assess manufactured homes as personal property on the secured assessment roll. Currently, the assessor enrolls all manufactured homes on the secured assessment roll under the category of fixtures. The manufactured homes are distinguished from fixtures on the roll by a special code. Therefore, even though the property is shown on the roll as a fixture, the property is being correctly assessed as personal property. This allows the owners to pay property taxes that are applicable to personal property.

The taxpayer is not being negatively affected and the manufactured homes are effectively treated and taxed as personal property. Therefore, we do not repeat our recommendation.

APPENDICES

A. County Property Tax Division Survey Group

Tuolumne County Assessment Practices Survey

Chief, County Property Tax Division

Mickie Stuckey

Survey Program Director:

Benjamin Tang

Principal Property Appraiser

Survey Team Supervisor:

Peter Gaffney

Supervising Property Appraiser

Survey Team Leader:

Dale Peterson

Senior Specialist Property Appraiser

Survey Team:

Jim McCarthy

Senior Petroleum and Mining Appraisal Engineer

Bob Donay

Associate Property Appraiser

Kim Trotto

Assistant Property Appraiser

Ken King

Associate Property Appraiser

Pam Bowens

Associate Property Auditor-Appraiser

Dave Barbeiro

Associate Property Auditor-Appraiser

Marilyn Jones

Tax Technician II

B. Assessment Sampling Program

The need for compliance with the laws, rules, and regulations governing the property tax system and related assessing⁴ activities is very important in today's fiscally stringent times. The importance of compliance is twofold. First, the statewide maximum tax rate is set at one percent of taxable value. Therefore, a reduction of local revenues occurs in direct proportion to any undervaluation of property. (It is not legally allowable to raise the tax rate to compensate for increased revenue needs.) Secondly, with a major portion of every property tax dollar statewide going to public schools, a reduction in available local property tax revenues has a direct impact on the State's General Fund, which must backfill any property tax shortfall.

The BOE, in order to meet its constitutional and statutory obligations, focuses the assessment sampling program on a determination of the full value of locally taxable property and eventually its assessment level. The purpose of the BOE's assessment sampling program is to review a representative sampling of the assessments making up the local assessment rolls, both secured and unsecured, to determine how effectively the assessor is identifying those properties subject to revaluation and how well he/she is performing the valuation function.

The BOE's County Property Tax Division (CPTD) conducts the assessment sampling program on a five-year cycle for the 11 largest counties and cities and counties and on either a random or as needed basis for the other 47 counties. This sampling program is described as follows:

A representative random sampling is drawn from both the secured and unsecured local assessment rolls for the counties to be surveyed.

These assessments are stratified into 18 value strata (nine secured and nine unsecured.)⁵

From each stratum a random sampling is drawn for field investigation, sufficient in size to reflect the assessment level within the county.

For purposes of analysis, the items will be identified and placed into one five categories after the sample is drawn:

Base year properties. Those properties the county assessor has not reappraised for either an ownership change or new construction during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.

⁴ The term "assessing" as used here includes the actions of local assessment appeals boards, the boards of supervisors when acting as boards of equalization, and local officials who are directed by law to provide assessment-related information.

⁵ The nine value strata are \$1 to \$99,999; \$100,000 to \$199,999; \$200,000 to \$499,999; \$500,000 to \$999,999; \$1,000,000 to \$1,999,999; \$2,000,000 to \$19,999,999; \$20,000,000 to \$99,999,999; \$100,000,000 to \$249,999,999; and \$250,000,000 and over.

Transferred properties. Those properties last reappraised because of an ownership change that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.

New construction. Those properties last reappraised to reflect new construction that occurred during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling.

Non-Proposition 13 properties. Those properties not subject to the value restrictions of article XIII A, or those properties that have a unique treatment. Such properties include mineral-producing property, open-space property, timber preserve property, and taxable government-owned property.

Unsecured properties. Those properties on the unsecured roll.

From the assessment universe in each of these 18 value strata (nine strata on both secured and unsecured local rolls), a simple random sampling is drawn for field investigation that is sufficient in size to reflect the assessment practices within the county. A simple nonstratified random sampling would cause the sample items to be concentrated in those areas with the largest number of properties and might not adequately represent all assessments of various types and values. Because a separate sample is drawn from each stratum, the number of sample items from each category is not in the same proportion to the number of assessments in each category. This method of sample selection causes the raw sample, i.e., the "unexpanded" sample, to overrepresent some assessment types and underrepresent others. "Expanding" the sample data eliminates this apparent distortion in the raw sampling; that is, the sample data in each stratum are multiplied by the ratio of the number of assessments in the particular stratum to the number of sample items selected from the stratum. Once the raw sampling data are expanded, the findings are proportional to the actual assessments on the assessment roll. Without this adjustment, the raw sampling would represent a distorted picture of the assessment practices. This expansion further converts the sampling results into a magnitude representative of the total assessed value in the county.

The field investigation objectives are somewhat different in each category, for example:

Base year properties -- for those properties not reappraised during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: was the value properly factored forward (for the allowed inflation adjustment) to the roll being sampled? was there a change in ownership? was there new construction? or was there a decline in value?

Transferred properties -- for those properties where a change in ownership was the most recent assessment activity during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: do we concur that a reappraisal was needed? do we concur with the county assessor's new value? was the base year value trended forward (for the allowed inflation adjustment)? was there a subsequent ownership change? was there subsequent new construction? was there a decline in value?

New construction -- for those properties where the most recent assessment activity was new construction added during the period between the lien date five years prior to the roll currently being sampled and the lien date of the current sampling: do we concur that the construction caused a reappraisal? do we concur with the value enrolled? was the base year amount trended forward properly (for the allowed inflation adjustment)? was there subsequent new construction? or was there a decline in value?

Non-Prop 13 properties -- for properties not covered by the value restrictions of article XIII A, or those properties that have a unique treatment do we concur with the amount enrolled?

Unsecured properties -- for assessments enrolled on the unsecured roll, do we concur with the amount enrolled?

The results of the field investigations are reported to the county assessor, and conferences are held to review individual sample items whenever the county assessor disagrees with the conclusions.

The results of the sample are then expanded as described in (5) above. The expanded results are summarized according to the five assessment categories and by property type and are made available to the assessment practices survey team prior to the commencement of the survey.

The primary use of the assessment sampling is to determine an assessor's eligibility for the cost reimbursement authorized by section 75.60. During the course of the sampling activity, the assessment practices survey team may also discover recurring causes for the differences in the opinion of taxable value that arise between the assessor and the County Property Tax Division. These discoveries may lead to recommendations in the survey report that would not have otherwise been made.

C. Relevant Statutes and Regulations

Government Code

15640. Survey by board of county assessment procedures.

- (a) The State Board of Equalization shall make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her.
- (b) The surveys shall include a review of the practices of the assessor with respect to uniformity of treatment of all classes of property to ensure that all classes are treated equitably, and that no class receives a systematic overvaluation or undervaluation as compared to other classes of property in the county or city and county.
- (c) The surveys may include a sampling of assessments from the local assessment rolls. Any sampling conducted pursuant to subdivision (b) of Section 15643 shall be sufficient in size and dispersion to ensure an adequate representation therein of the several classes of property throughout the county.
- (d) In addition, the board may periodically conduct statewide surveys limited in scope to specific topics, issues, or problems requiring immediate attention.
- (e) The board's duly authorized representatives shall, for purposes of these surveys, have access to, and may make copies of, all records, public or otherwise, maintained in the office of any county assessor.
- (f) The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors' Association. The board shall also provide a right to each county assessor to appeal to the board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process.

15641. Audit of Records; Appraisal Data Not Public.

In order to verify the information furnished to the assessor of the county, the board may audit the original books of account, wherever located; of any person owning, claiming, possessing or controlling property included in a survey conducted pursuant to this chapter when the property is of a type for which accounting records are useful sources of appraisal data.

No appraisal data relating to individual properties obtained for the purposes of any survey under this chapter shall be made public, and no state or local officer or employee thereof gaining knowledge thereof in any action taken under this chapter shall make any disclosure with respect thereto except as that may be required for the purposes of this chapter. Except as specifically provided herein, any appraisal data may be disclosed by the board to any assessor, or by the board or the assessor to the assessee of the property to which the data relate.

The board shall permit an assessee of property to inspect, at the appropriate office of the board, any information and records relating to an appraisal of his or her property, including "market data" as defined in Section 408. However, no information or records, other than "market data," which relate to the property or business affairs of a person other than the assessee shall be disclosed.

Nothing in this section shall be construed as preventing examination of that data by law enforcement agencies, grand juries, boards of supervisors, or their duly authorized agents, employees, or representatives

conducting an investigation of an assessor's office pursuant to Section 25303, and other duly authorized legislative or administrative bodies of the state pursuant to their authorization to examine that data.

15642. Research by board employees.

The board shall send members of its staff to the several counties and cities and counties of the state for the purpose of conducting that research it deems essential for the completion of a survey report pursuant to Section 15640 with respect to each county and city and county. The survey report shall show the volume of assessing work to be done as measured by the various types of property to be assessed and the number of individual assessments to be made, the responsibilities devolving upon the county assessor, and the extent to which assessment practices are consistent with or differ from state law and regulations. The report may also show the county assessor's requirements for maps, records, and other equipment and supplies essential to the adequate performance of his or her duties, the number and classification of personnel needed by him or her for the adequate conduct of his or her office, and the fiscal outlay required to secure for that office sufficient funds to ensure the proper performance of its duties.

15643. When surveys to be made .

(a) The board shall proceed with the surveys of the assessment procedures and practices in the several counties and cities and counties as rapidly as feasible, and shall repeat or supplement each survey at least once in five years.

(b) The surveys of the 10 largest counties and cities and counties shall include a sampling of assessments on the local assessment rolls as described in Section 15640. In addition, the board shall each year, in accordance with procedures established by the board by regulation, select at random at least three of the remaining counties or cities and counties, and conduct a sample of assessments on the local assessment roll in those counties. If the board finds that a county or city and county has "significant assessment problems," as provided in Section 75.60 of the Revenue and Taxation Code, a sample of assessments will be conducted in that county or city and county in lieu of a county or city and county selected at random. The 10 largest counties and cities and counties shall be determined based upon the total value of locally assessed property located in the counties and cities and counties on the lien date that falls within the calendar year of 1995 and every fifth calendar year thereafter.

(c) The statewide surveys which are limited in scope to specific topics, issues, or problems may be conducted whenever the board determines that a need exists to conduct a survey.

(d) When requested by the legislative body or the assessor of any county or city and county to perform a survey not otherwise scheduled, the board may enter into a contract with the requesting local agency to conduct that survey. The contract may provide for a board sampling of assessments on the local roll. The amount of the contracts shall not be less than the cost to the board, and shall be subject to regulations approved by the Director of General Services.

15644. Recommendations by board.

The surveys shall incorporate reviews of existing assessment procedures and practices as well as recommendations for their improvement in conformity with the information developed in the surveys as to

what is required to afford the most efficient assessment of property for tax purposes in the counties or cities and counties concerned.

15645. Survey report; final survey report; assessor's report.

(a) Upon completion of a survey of the procedures and practices of a county assessor, the board shall prepare a written survey report setting forth its findings and recommendations and transmit a copy to the assessor. In addition the board may file with the assessor a confidential report containing matters relating to personnel. Before preparing its written survey report, the board shall meet with the assessor to discuss and confer on those matters which may be included in the written survey report.

(b) Within 30 days after receiving a copy of the survey report, the assessor may file with the board a written response to the findings and recommendations in the survey report. The board may, for good cause, extend the period for filing the response.

(c) The survey report, together with the assessor's response, if any, and the board's comments, if any, shall constitute the final survey report. The final survey report shall be issued by the board within two years after the date the board began the survey. Within a year after receiving a copy of the final survey report, and annually thereafter, no later than the date on which the initial report was issued by the board and until all issues are resolved, the assessor shall file with the board of supervisors a report, indicating the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations of the survey report, with copies of that response being sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly and to the grand juries and assessment appeals boards of the counties to which they relate.

15646. Copies of final survey reports to be filed with local officials.

Copies of final survey reports shall be filed with the Governor, Attorney General, and with the assessors, the boards of supervisors, the grand juries and assessment appeals boards of the counties to which they relate, and to other assessors of the counties unless one of these assessors notifies the State Board of Equalization to the contrary and, on the opening day of each regular session, with the Senate and Assembly.

Revenue and Taxation Code

75.60. Allocation for administration.

(a) Notwithstanding any other provision of law, the board of supervisors of an eligible county or city and county, upon the adoption of a method identifying the actual administrative costs associated with the supplemental assessment roll, may direct the county auditor to allocate to the county or city and county, prior to the allocation of property tax revenues pursuant to Chapter 6 (commencing with Section 95) and prior to the allocation made pursuant to Section 75.70, an amount equal to the actual administrative costs, but not to exceed 5 percent of the revenues that have been collected on or after January 1, 1987, due to the assessments under this chapter. Those revenues shall be used solely for the purpose of administration of this chapter, regardless of the date those costs are incurred.

(b) For purposes of this section:

- (1) "Actual administrative costs" includes only those direct costs for administration, data processing, collection, and appeal that are incurred by county auditors, assessors, and tax collectors. "Actual administrative costs" also includes those indirect costs for administration, data processing, collections, and appeal that are incurred by county auditors, assessors, and tax collectors and are allowed by state and federal audit standards pursuant to the A-87 Cost Allocation Program.
- (2) "Eligible county or city and county" means a county or city and county that has been certified by the State Board of Equalization as an eligible county or city and county. The State Board of Equalization shall certify a county or city and county as an eligible county or city and county only if both of the following are determined to exist:
 - (A) The average assessment level in the county or city and county is at least 95 percent of the assessment level required by statute, as determined by the board's most recent survey of that county or city and county performed pursuant to Section 15640 of the Government Code.
 - (B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the board's survey described in subparagraph (A).
- (3) Each certification of a county or city and county shall be valid only until the next survey made by the board. If a county or city and county has been certified following a survey that includes a sampling of assessments, the board may continue to certify that county or city and county following a survey that does not include sampling if the board finds in the survey conducted without sampling that there are no significant assessment problems in the county or city and county. The board shall, by regulation, define "significant assessment problems" for purposes of this section, and that definition shall include objective standards to measure performance. If the board finds in the survey conducted without sampling that significant assessment problems exist, the board shall conduct a sampling of assessments in that county or city and county to determine if it is an eligible county or city and county. If a county or city and county is not certified by the board, it may request a new survey in advance of the regularly scheduled survey, provided that it agrees to pay for the cost of the survey.

Title 18, California Code of Regulations

Rule 370. Random selection of counties for representative sampling.

- (a) **SURVEY CYCLE.** The board shall select at random at least three counties from among all except the 10 largest counties and cities and counties for a representative sampling of assessments in accordance with the procedures contained herein. Counties eligible for random selection will be distributed as equally as possible in a five-year rotation commencing with the local assessment roll for the 1997–98 fiscal year.
- (b) **RANDOM SELECTION FOR ASSESSMENT SAMPLING.** The three counties selected at random will be drawn from the group of counties scheduled in that year for surveys of assessment practices. The scheduled counties will be ranked according to the size of their local assessment rolls for the year prior to the sampling.
- (1) If no county has been selected for an assessment sampling on the basis of significant assessment problems as provided in subdivision (c), the counties eligible in that year for random selection will be divided into three groups (small, medium, and large), such that each county has an equal chance of being selected. One county will be selected at random by the board from each of these groups. The board may randomly select an additional county or counties to be included in any survey cycle year. The selection will be done by lot, with a representative of the California Assessors' Association witnessing the selection process.
 - (2) If one or more counties are scheduled for an assessment sampling in that year because they were found to have significant assessment problems, the counties eligible for random selection will be divided into the same number of groups as there are counties to be randomly selected, such that each county has an equal chance of being selected. For example, if one county is to be sampled because it was found to have significant assessment problems, only two counties will then be randomly selected and the pool of eligible counties will be divided into two groups. If two counties are to be sampled because they were found to have significant assessment problems, only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.
 - (3) Once random selection has been made, neither the counties selected for an assessment sampling nor the remaining counties in the group for that fiscal year shall again become eligible for random selection until the next fiscal year in which such counties are scheduled for an assessment practices survey, as determined by the five-year rotation. At that time, both the counties selected and the remaining counties in that group shall again be eligible for random selection.
- (c) **ASSESSMENT SAMPLING OF COUNTIES WITH SIGNIFICANT ASSESSMENT PROBLEMS.** If the board finds during the course of an assessment practices survey that a county has significant assessment problems as defined in Rule 371, the board shall conduct a sampling of assessments in that county in lieu of conducting a sampling in a county selected at random.
- (d) **ADDITIONAL SURVEYS.** This regulation shall not be construed to prohibit the Board from conducting additional surveys, samples, or other investigations of any county assessor's office.

Rule 371. Significant assessment problems .

- (a) For purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, "significant assessment problems" means procedure(s) in one or more areas of an assessor's assessment operation, which alone or in combination, have been found by the Board to indicate a reasonable probability that either:
- (1) the average assessment level in the county is less than 95 percent of the assessment level required by statute; or
 - (2) the sum of all the differences between the board's appraisals and the assessor's values (without regard to whether the differences are underassessments or overassessments), expanded statistically over the assessor's entire roll, exceeds 7.5 percent of the assessment level required by statute.
- (b) For purposes of this regulation, "areas of an assessor's assessment operation" means, but is not limited to, an assessor's programs for:
- (1) Uniformity of treatment for all classes of property.
 - (2) Discovering and assessing newly constructed property.
 - (3) Discovering and assessing real property that has undergone a change in ownership.
 - (4) Conducting mandatory audits in accordance with Revenue and Taxation Code Section 469 and Property Tax Rule 192.
 - (5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code Sections 421 et. seq.
 - (6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code Sections 107 et. seq.
 - (7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.
 - (8) Discovering and assessing property that has suffered a decline in value.
 - (9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.
- (c) A finding of "significant assessment problems," as defined in this regulation, would be limited to the purposes of Revenue and Taxation Code Section 75.60 and Government Code Section 15643, and shall not be construed as a generalized conclusion about an assessor's practices.

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

Section 15645 of the Government Code provides that the assessor may file with the BOE a response to the findings and recommendation in the survey report. The survey report, the assessor's response, and the BOE's comments on the assessor's response, if any, constitute the final survey report.

The Tuolumne County Assessor's response begins on the next page. The BOE has no comments on the response.



DAVID W. WYNNE
Assessor-Recorder

COUNTY OF TUOLUMNE

OFFICE OF ASSESSOR-RECORDER

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March 23, 2004

Ms. Mickie Stuckey, Chief
County Property Tax Division
State Board of Equalization
P.O. Box 942879
Sacramento, California 94279-0062

Dear Ms. Stuckey:

Enclosed is my response to the recommendations in the recent Assessment Practices Survey of Tuolumne County conducted by the Board of Equalization. Please include it in the final report.

Your staff is to be commended for the professional and courteous manner in which they conducted the review. We appreciated their efforts to avoid disruption of the ongoing operations of this office.

The survey is a valuable tool that will aid us as we work to ensure that property tax assessments are properly and efficiently administered. As you will see from the response, we agree with many of the recommendations. We have already implemented some, others will be implemented as time and resources allow.

I wish to thank the staff of the Tuolumne County Assessor's Office for the professional manner in which they conduct the business of this office. As you know the Tuolumne County Assessment Roll was sampled in this survey. The ratio of assessments to full value was 99.1 percent. Such a high ratio clearly indicates that we have been focusing on the most important aspects of our work during these times of tight budgets. The overall good report was due to the outstanding performance and dedication of our staff. I also applaud their achievement of excellent service to the public.

Sincerely,

David Wynne
Tuolumne County Assessor-Recorder

**TUOLUMNE COUNTY RESPONSE
ASSESSMENT PRACTICES SURVEY
MARCH 2004**

- RECOMMENDATION 1:** Grant the welfare exemption claim only for qualifying portions of low-income rental housing.
- RESPONSE:** We concur and have already implemented this recommendation.
- RECOMMENDATION 2:** Enroll low value property to ensure eligibility for exemption under the county resolution.
- RESPONSE:** We concur and will implement this recommendation as time and resources allow. Current policy is based on cost cutting priorities dictated by budgetary constraints. We will consider including this work under the Property Tax Administration Grant Program.
- RECOMMENDATION 3:** Request that the board of supervisors revise the disaster relief ordinance to reflect recent amendments to Section 170.
- RESPONSE:** We concur and have implemented this recommendation.
- RECOMMENDATION 4:** Revise the disaster relief claim form to comply with section 170.
- RESPONSE:** We concur and have implemented this recommendation.
- RECOMMENDATION 5:** Include on the assessment roll the escape assessment notation required by section 533.
- RESPONSE:** We concur and will work with our property tax software provider to reconfigure the system so it will accommodate this requirement.
- RECOMMENDATION 6:** Apply the penalty required by section 482 when a *Change of Ownership Statement* is incomplete, not returned timely, or not returned at all.
- RESPONSE:** We concur and will begin implementing this recommendation immediately.
- RECOMMENDATION 7:** Substantiate new construction discounts on residential swimming pools.
- RESPONSE:** We concur. Our appraisers are well qualified to make the market adjustments for swimming pools and I believe the adjustments found by the survey are valid. We will provide a documentation reference on the field record pointing to back up information that supports the adjustment.
- RECOMMENDATION 8:** Make supplemental assessments for structural leasehold improvements and possessory interests assessed on the unsecured roll.
- RESPONSE:** We concur and will work with our software provider to program the supplemental assessment function to allow for processing automated supplemental assessments on the unsecured roll.
- RECOMMENDATION 9:** Deduct a capital replacement allowance for irrigation wells that contribute to the income being capitalized.
- RESPONSE:** We concur and will implement this recommendation for the 2004/2005 assessment roll.

RECOMMENDATION 10:	Develop appropriate risk components for CLCA properties.
RESPONSE:	We concur. It will take two or three years to fully develop risk components that meet the guidelines set forth under AH 521. However, we will begin the process for the 2004/2005 assessment year.
RECOMMENDATION 11:	Obtain current agricultural rents and production information from owners of CLCA land.
RESPONSE:	We agree and will send out production and income questionnaires to all owners of CLCA land for the 2005/2006 assessment year. It should be noted that Tuolumne County is in the process of revising all of its CLCA contracts which will make it easier for us to obtain the information we need.
RECOMMENDATION 12:	Send questionnaires to taxpayers requesting compatible use information on TPZ parcels.
RESPONSE:	We concur. This recommendation will be implemented for the 2005/2006 assessment year.
RECOMMENDATION 13:	Identify TPZ parcels on the assessment roll as required by section 433.
RESPONSE:	We will try to implement this recommendation for the 2004/2005 assessment roll. However, it may take another year depending on our software provider's ability to reformat our roll report program.
RECOMMENDATION 14:	Separately assess the possessory interest portion of houseboat assessments.
RESPONSE:	We concur. This recommendation will be implemented for the 2005/2006 assessment roll.
RECOMMENDATION 15:	Reappraise taxable possessory interests in accordance with section 61(b)(2).
RESPONSE:	We concur and will implement this recommendation for the upcoming 2004/2005 assessment roll.
RECOMMENDATION 16:	Value historical property using current owner expense data.
RESPONSE:	We concur. Questionnaires will be sent out annually to collect the most recent information. There are only 4 properties in this category at present so collection of the information is a relatively easy task.
RECOMMENDATION 17:	Document classification of fixtures and structural leasehold improvements, as warranted.
RESPONSE:	We concur. We believe this is more a matter of providing written documentation rather than misclassification of fixtures or leasehold improvements. Every effort will be made to implement this recommendation as time and resources allow.
RECOMMENDATION 18:	Obtain a copy of the annual CPUC report for each water company.
RESPONSE:	We appreciate the contact information provided by the survey crew and will immediately implement this recommendation.

RECOMMENDATION 19: Require CPUC water companies to file an annual property statement to ensure proper classification and assessment of personal property.

RESPONSE: We concur and will implement this recommendation for the 2005/2006 roll.

RECOMMENDATION 20: Assessor mineral properties according to the requirements of rule 469.

RESPONSE: We concur and will comply.

RECOMMENDATION 21: Audit the books and records of professions, trades, or businesses pursuant to section 469.

RESPONSE: We concur and will comply.

RECOMMENDATION 22: Audit mandatory accounts of exempt organizations.

RESPONSE: We agree that this needs to be done. This will necessarily be a lower priority until we bring our non-exempt mandatory audits current. Our goal is to have this recommendation implemented within 2 years.

RECOMMENDATION 23: Obtain a signed waiver of the statute of limitations when an audit will not be completed in a timely manner.

RESPONSE: We concur and will implement immediately.

RECOMMENDATION 24: Accept only completed business property statements.

RESPONSE: We concur and have implemented this recommendation.

RECOMMENDATION 25: Accept only business property statements with authorized signatures, as provided in rule 172.

RESPONSE: This recommendation has been implemented. We believe that rule 172 may need to be revised to reflect current business practices. Maintaining a list of authorized signatures is labor intensive, subject to error, and as a result the list is never current.

RECOMMENDATION 26: Audit or visit taxpayers who fail to file business property statements for three or more consecutive years.

RESPONSE: We agree in principle. However, we do not have sufficient audit staff to implement this recommendation. We currently use property tax administration funds to hire contract auditors, but we have found it difficult to find and hire qualified people to do the work.

RECOMMENDATION 27: Use percent good factors in the AH 581 as intended.

RESPONSE: I disagree with recommendation #27. Assessors' working through the California Assessors' Association (CAA) spend a significant amount of time reviewing business property percent good factors on an annual basis. A key task of the CAA - Business Property Subcommittee is to convene Business Division Chief Appraisers from throughout the State. Purpose of the meetings(s) is to review audit results, assessment appeal information and any other data to determine appropriateness of property lives, replacement cost data and loss of value (percent good) tables. A far more significant concern associated with the BOE AH 581 percent good factors is that the State will not identify a recommended economic life for most California business property assets. Quibbling about minimum percent good differences is a red herring. The far more significant issue is how can the BOE produce AH 581 percent good tables

and then neglect to advise Assessors as to appropriate economic lives for California business property. Without a determination of a properties economic life, the AH 581percent good tables are absolutely useless.

RECOMMENDATION 28:

Require evidence that aircraft receiving the historical aircraft exemption have been properly displayed according to section 220.5.

RESPONSE:

We concur and have developed a procedure to implement this recommendation.

RECOMMENDATION 29:

Require vessel owners to file annual vessel property statements for boats costing \$100,000 or more.

RESPONSE:

We concur and will comply.